Alberta
ENERGY

ALBERTA OIL SANDS ROYALTY GUIDELINES

PRINCIPLES AND PROCEDURES
FEBRUARY 2, 2001

MARCH 19, 2001- DEPARTMENT NAME CHANGE

FROM: RESOURCE DEVELOPMENT

TO: ENERGY

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OIL SANDS INFORMATION BULLETIN 2001-01

SUBJECT: The Alberta Oil Sands Royalty Guidelines

The Alberta Oil Sands Royalty Guidelines (Guidelines) were developed through the considerable effort of the industry and Department representatives of the Oil Sands Royalty Business Design Team. The Guidelines interpret the relevant energy legislation (in particular the Oil Sands Royalty Regulation, 1997, AR 52/2000) and the Minister's discretion. The Guidelines describe the principles and procedures involved in approving an oil sands project, and in the assessment and levy of the Crown's royalty share of oil sands produced from Crown minerals.

These Guidelines reflect the ongoing policies and procedures of the Oil Sands Royalty program and are subject to ongoing changes as required. Oil Sands Royalty clients should regularly check the Department's website at http://www.resdev.gov.ab.ca/room/guides/rylty_os/osr_guide.htm to update their information.

Several issues currently remain that require further discussion, review, and/or development. As a result, the following issues will not be incorporated in these Guidelines until they are resolved:

- Royalty and cost treatment of co-products
- Co-generation cost allocation
- Off-lease fuel gas
- Greenhouse gases
- Amalgamations
- Historical capital costs (valuation)
- Treatment of revenues that are non-arm's length (*section 8* OSRR, 1997)
- Cost treatment of downstream non-arm's length pipelines
- Bitumen valuation methodology
- Fair market value for electricity
- Changes to the Affiliate rules.

.../2

In cases of conflict the Mines and Minerals Act and the Oil Sands Royalty Regulation, 1997 will take precedence over these Guidelines.

Please refer to the contact list at the back of the Guidelines if you have any questions regarding content.

for
Linda White
Leader, Oil Sands Development Business Unit

NOTICE

Several business issues require further discussion and review. The resolution of these business issues will be incorporated into these Guidelines, as they are resolved. The Department and industry will continue to review the *Oil Sands Royalty Regulation, 1997* and the Guidelines from time-to-time and may propose further amendments as required.

All persons making use of these Guidelines are reminded the Guidelines have no legislative sanction. Should any conflict arise between the *Mines and Minerals Act*, the *Oil Sands Royalty Regulation, 1997,* and the Guidelines, the *Act* and the *Regulation* will prevail.

This document contains various words that are defined in Appendix 1. The first time these words occur the document they are identified in **bold** or in ***bold and italics.***

For further information or inquiries regarding the Guidelines, please contact the appropriate Department representative listed in Appendix 9.

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1.0 PRINCIPLES AND PROCEDURES OVERVIEW

1.1 Authority and Scope

The Principles, Procedures and Appendices (collectively referred to as the Guidelines) interpret the relevant legislation (statutes and regulations), and communicate policy with respect to application of the legislation. The Guidelines are the result of an extensive joint effort between the Department of Resource Development (the **Department**) and **industry,** as represented through the Oil Sands Royalty Business Design Team. The Department and industry shall continue to review the ***Regulation*** and the Guidelines from time to time and may propose further amendments to the *Regulation* and changes to the Guidelines.

These Guidelines are provided for the convenience of the reader in order to give an understanding of the general application and principles for determining royalty. Application of the *Regulation* in specific situations may vary, and implementation and practice of the *Regulation* may change without amending the Guidelines. All ***persons*** making use of these Guidelines are reminded that the Guidelines have no legislative sanction and do not bind the Department or the Government of Alberta in any way. Should any conflict arise between the *Mines and Minerals Act* (the *Act*), the *Regulation* and the Guidelines, the *Act* and the *Regulation* will prevail.

1.2 Oil Sands Royalty Regime

Alberta's new oil sands royalty regime is defined by the *Act* and the *Regulation*, and provides the fiscal climate that is required to support the major investments needed to develop this resource. The new regime is based on the principle of "revenue minus cost".

1.2.1 Background

In 1993, industry and government formed the joint National Task Force on Oil Sands Strategies. In spring 1995, the Task Force released a comprehensive report detailing its recommended royalty and tax terms for the oil sands industry in Alberta. The Task Force recommended that this regime be established by legislation rather than through individual **Crown** agreements. On November 30, 1995, Premier Ralph Klein announced that a generic royalty regime would be developed for Alberta's oil sands. This generic regime became effective July 1, 1997 when the *Regulation* was put into force.

1.2.2 Objectives

The objectives of the royalty regime are as follows:

- To optimise the sustained contribution from Alberta's resources in the interests of Albertans.
- To establish a single, clear and stable royalty regime that is applicable to all new investments in oil sands and facilities development without the Province of Alberta having to provide grants, loans, loan guarantees, or become directly involved in any capacity other than as resource owner.
- To ensure that oil sands development in Alberta is generally competitive with other petroleum development investment opportunities around the world.

1.2.3 Legislation

To achieve these objectives, the Crown amended the *Act, May 1997,* embedding royalty formulae and the applicable **return allowance** rate in the *Act* itself.

The *Regulation* outlines the main administrative provisions, most notably the following areas:

- requirements for ***project*** approval;

- royalty based on revenue minus costs;
- definition of ***allowed costs***; and
- reporting and payment mechanisms.

Copies of the *Act* and the *Regulation* are available through the Queen's Printer for Alberta in Edmonton and Calgary.

Queen's Printer for Alberta
Publication Services
11510 Kingsway Avenue
Edmonton AB T5G 2Y5
Phone: (780) 427–4952
Fax: (780) 452–0668

Queen's Printer for Alberta
Publication Services
Main Floor, McDougall Centre
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Calgary AB T2P 4E8
Phone: (403) 297–6251
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The Queen's Printer for Alberta can also be contacted through their website at http://www.gov.ab.ca/qp/.

1.2.4 Key Features of the Oil Sands Royalty Regulation, 1997

The *Regulation* applies to all new investments in the oil sands, whether they are new projects or expansions of existing projects.

Prior to a ***project's payout date***, the applicable royalty is 1% of project ***gross revenue***. After a project's payout, the applicable royalty is equivalent to the greatest of 25% of project ***net revenue***, or 1% of gross revenue (see *section 125.1* of the *Act*).

The return allowance is set at the Government of Canada **long-term bond rate (LTBR)**. All cash costs (operating and capital) of the project that are allowed are 100% deductible in the year in which they are incurred.

1.2.5 Implementation

Lessees who have developed, or intend to develop, an oil sands project may apply for royalty treatment under the provisions of the *Regulation*. Ministerial approval is required for each project. This applies to existing projects and expansions, and any new project. Projects that do not apply under the *Regulation* will be subject to *Oil Sands Royalty Regulation, 1984* or continue to pay royalty, either under existing individual agreements or under the *Experimental Oil Sands Royalty Regulation*, as applicable.

1.2.6 Application and Approval Process

The application and approval terms are described in *Part 2* of the *Regulation*, and in Appendix 2 of these Guidelines. This Appendix outlines the specific conditions that must be met and the information that must be submitted before the application will be reviewed.

2.0 DEFINITION OF AN OIL SANDS PROJECT

The generic oil sands royalty regime determines and collects royalty on a project basis. The project-based royalty regime is based on the premise that a project is developed as an economic unit. By defining the project in this way, the development should be more consistent and compatible with the ***project owner's*** drive for a project design that allows for efficient and effective economic and business decision making. Where both resource recovery and processing facilities are developed, the developer can apply for the processing facilities to be included as part of the project. (See Appendix 2)

2.1 Economic Unit

Defining an oil sands project based on an economic unit approach requires that the project design and development be driven by intrinsic economics. Therefore, when the Department reviews project applications, it must be satisfied that the proposed project boundaries and facilities are appropriate for business and economic reasons. In determining whether a proposed project should be approved as requested in an application, the Department will look at whether each component of the project can be economically justified.

In addition to project profitability, the Department will consider any aspect of the project that would result in royalty being shifted away from the Crown. If the Department determines that any aspect of the proposed project definition results in a shift of the ***Crown's share*** of ***project revenue*** to the project owner(s), the Department will not approve that application until it is amended to protect the interests of the Crown.

2.2 Determining Royalty

In determining royalty, directly related expenditures for recovery, processing, and related transportation may be eligible for deduction as allowed costs (see section 3.0). In return for allowing these deductions, revenue arising from the expenditures must be included in determining the project's royalty status. For example, if the project definition includes an upgrader, the costs and revenues directly related to that upgrader must be included in accordance with the *Regulation* for determining royalty.

Revenue generated from other sources (e.g., other project facilities, custom processing, or technology sales) is called "***other net proceeds***", and goes toward reducing allowed costs, if the costs from these other sources have been included. Other net proceeds do not include revenue from ***oil sands products*** that are ***project substances*** (see section 3.7).

2.3 Facilities Included

The economic unit may include all operations, equipment, and facilities associated with the recovery and processing of oil sands, and their subsequent transportation to the project's boundary.

All components of the proposed project must have an approval from the ***Alberta Energy and Utilities Board (Board)*** (*section 17 [1][a]* of the *Regulation*) (see section 2.3.1). In addition, when reviewing the project definition in an application, the Department must consider, without limitation (*section 17 [3]* of the *Regulation*), whether:

- The project is operated under common management (see section 2.3.2);
- All parts of the proposed project lie within a 50 kilometre (km) diameter, and are operationally integrated (see section 2.3.3); and
- Each part of the project can be economically justified (see section 2.1).

For royalty purposes, it is assumed that all facilities required to produce the project's output at the ***royalty calculation point*** are included in the ***project description***. That is:

- All capital assets required to produce the project's output, and which are located on approved project lands, are considered to be in the project unless otherwise specified by the applicant and approved by the Department;
- Capital assets required to produce the project's output, and which are located off project lands, must be specified by the applicant as being part of the project and approved by the Department; and
- As a minimum, the project's output is the first marketable oil sands product, which is ***cleaned crude bitumen***. Assets beyond those required to produce cleaned crude bitumen that the project owner wants included in the project must be specified by the applicant and approved by the Department.

The non-arm's length transaction guidelines regarding the amount that can be charged to a project (see section 3.5) apply whenever goods, services, or capital assets that are essential to produce a project's output are excluded from a project and not subject to an arm's-length arrangement.

Figure 1 illustrates six possible project configurations. It also shows how each project is defined under the *Regulation*, and outlines the royalty treatment for each project. Figure 2 contains a flowchart illustrating the steps that must be followed for project approval. (See Figures 1 and 2 at the end of this section).

A project must be amended if any of the following occurs:

- The Board approval number changes;
- The land description for the project changes;
- The production technology approved for use by the Board changes;
- An asset that is required to produce the project's output and is on project lands is requested for exclusion from the project;
- An asset that is required to produce the project's output but is not on the project lands is requested for inclusion in the project;
- An asset beyond those required to produce cleaned crude bitumen is requested for inclusion into the project; and
- Anytime an asset specifically mentioned in a project approval is changed.

Ownership changes in a project do not require a formal amendment; however, a letter to the Department advising of the change is required.

2.3.1 Board Approval

All proposed components of the project must be approved by the Board under the *Oil Sands Conservation Act* as being a scheme(s), ***operator***, ***processing plant***, well, or facility. For royalty purposes, the project can include multiple Board approvals. Wells drilled under a Board single well license will be eligible for inclusion only if they were drilled on land that was included in the project.

2.3.2 Common Management

Operations within a project are under common management, and are to be treated as a single common business unit for determining royalty.

2.3.3 Geographic Proximity

The two most distant points of a project are to be no further than 50 kilometres apart, a distance equivalent to approximately five townships. Upgraders are not subject to the 50 kilometre criterion, but they must be located in Alberta (*section 17[3][c]* of the *Regulation*). The pipelines that connect the upgraders included in the project to the rest of a project will be considered if they meet the same criteria as all other facilities (see section 2.3).

2.4 Shared Facilities

Where processing facilities in a proposed project are co-owned with another project, each project must, on its initial application, state the percent allocation of the shared facilities to be assigned to each project for royalty purposes. Where the common ownership is for a processing facility, the allocation will be proportional to each project's percentage ownership of that facility. (see Figure 1, Projects 3 and 4; and *section 17[2]* of the *Regulation*).

Processing is assumed to be in proportion to each project's ownership in the joint processing facility (i.e., if ownership is 50/50, processing is assumed to be 50/50). If the processing is not in the same proportion as the ownership, a cost equalisation payment will be made to account for the difference. The cost equalisation payment is considered to be custom processing, which is treated as other net proceeds (see Figure 1, Projects 3 and 4).

Where ***crude bitumen*** processing facilities are included in a project, and where those facilities are used to process crude bitumen produced outside the project, the costs associated with processing will be included for determining royalty. Custom processing revenues for processing crude bitumen produced outside the project are considered other net proceeds (see Figure 1, Projects 5 and 6).

The project may include the whole or any part of a **co-generation** plant or a proportion of the plant or part of the plant. In splitting the co-generation plant, consideration must be made for the amount of steam or electricity that will be used by the project, and the percentage of the plant that is owned by the project owners.

2.5 Project Expansions, Amalgamations and Disaggregations

One of the goals of the oil sands royalty regime is to facilitate staged development, whereby projects can grow over time by increments that achieve economies while keeping the investment outlays for each phase at optimal levels. By adhering to the economic unit guidelines, ***project expansions*** and growth can be accommodated. Where diseconomies occur because operations expand beyond an economic size and geographic range, projects will be approved on a standalone basis only. The proponent can apply to have the projects amalgamated once it can be demonstrated to the Department's satisfaction that the diseconomies have been overcome through, for example, advances in technology.

Amalgamated *projects* must adhere to the same criteria as all other projects: they must have Board approval(s), and the common management and the 50-kilometre limit are considerations. Furthermore, the amalgamated project must be justified for economic reasons. If any other aspect of the proposed definition for the amalgamated project does not materially benefit the project's profitability, the Department will not approve the **amalgamation**. The Department will also consider the Crown's royalty share from the amalgamated project. If the Department determines that any portion of the amalgamation results in the Crown's royalty share shifting away from the Crown and moving to the project owners, the Department will not approve the amalgamation until it is amended to protect the interests of the Crown.

Projects that start as resource recovery facilities can be expanded later to encompass processing facilities. However, once a project is established to include processing facilities, these facilities cannot be disaggregated later solely to eliminate their inclusion for determining royalty.

2.5.1 Expanding Beyond 50 Kilometres

Proposed projects with components that lie beyond the 50 kilometre constraint (other than upgraders and the pipelines that connect the upgraders to the project) will be considered for inclusion in the project only when the project operator can demonstrate clearly that those components provide significant economic and operational synergies, and are integrated operationally with the rest of the project. If this cannot be demonstrated to the Department's satisfaction, the Department will require separate projects for royalty determination.

2.5.2 Amalgamation of Projects

This subsection is under development.

2.6 Project Effective Date

The project's ***effective date*** will be the latest of the following dates:

(a) the first day of the **month** in which the application for approval of the project or amendment is received by the Department;

(b) the first day of the month following the month in which the proposed project or amendment is approved by the Board under the *Oil Sands Conservation Act*; or

(c) the first day of the month that precedes by nine months the month in which the project or amendment is approved by the Minister.

Nonetheless, an operator may request an effective date that is later than the date eligible using the preceding criteria.

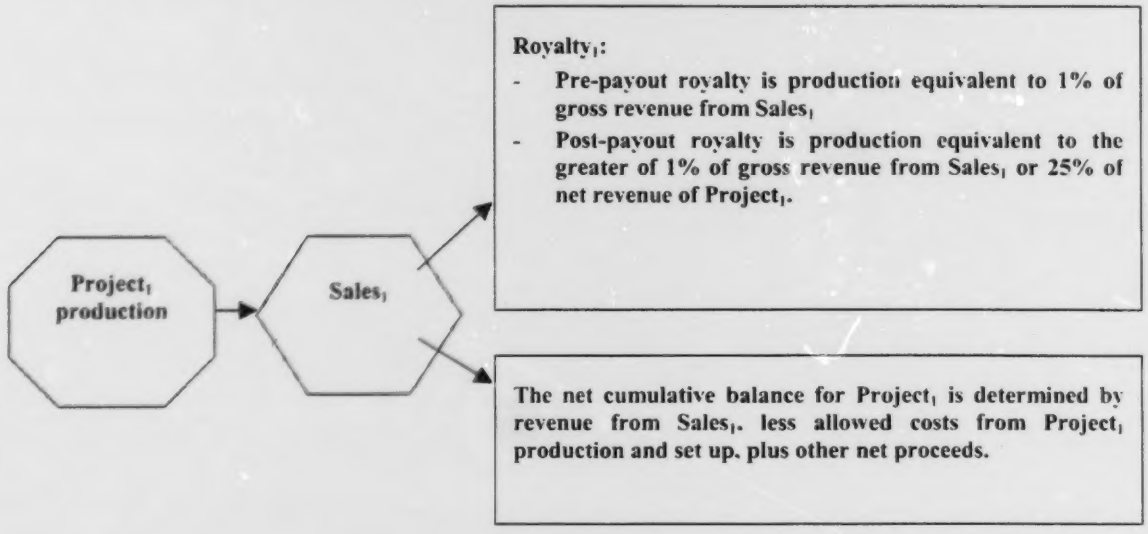
Figure 1. Project definition diagrams illustrating royalty calculation and payout status.

This figure illustrates six possible project configurations, shows how each project is defined under the *Regulation*, and outlines how royalty and payout status will be determined for each project.

Each project can have one or more owners. If there is more than one owner, the project operator is responsible for royalty payment, and the project owners will determine among themselves how the obligations for payment will be shared. Ultimately, the leaseholder (lessee) is responsible for payment.

A project is in pre-payout until the ***project payout date*** is reached.

Project 1 — A project with no processing facilities (see *section 1[z]* of the *Regulation*).

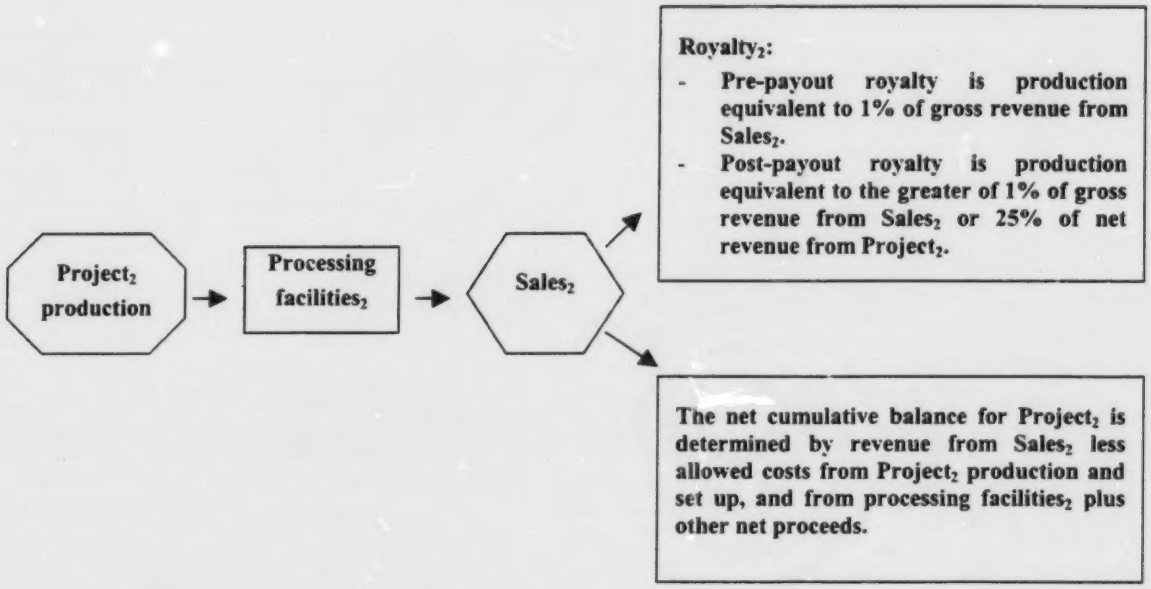

Project$_1$ production
Sales$_1$
Royalty$_1$:
- Pre-payout royalty is production equivalent to 1% of gross revenue from Sales$_1$
- Post-payout royalty is production equivalent to the greater of 1% of gross revenue from Sales$_1$ or 25% of net revenue of Project$_1$.
The net cumulative balance for Project$_1$ is determined by revenue from Sales$_1$, less allowed costs from Project$_1$ production and set up, plus other net proceeds.

Sales$_1$ is the sale of all oil sands products obtained from oil sands rights included in the project.

Net revenue from Sales$_1$ is determined by revenue from Sales$_1$ less allowed costs from Project$_1$ production (see section 3.7). In this example, the project either sells raw bitumen or cleans the bitumen at processing facilities outside the project. If raw bitumen is sold, royalty is calculated based on the Department's determination of revenue that could be obtained from clean bitumen and the bitumen cleaning costs may be deducted. If a project has other net proceeds, these are deducted from allowed costs when determining net revenue. If the processing plant is outside the project, the revenue is based on clean bitumen sales. The amount allowed for cleaning costs depends on whether the processing facility is at arm's length or non-arm's length (see section 3.5), and is an allowed cost rather than ***unit price*** deduction.

Figure 1:

Project 2 — A project with processing facilities

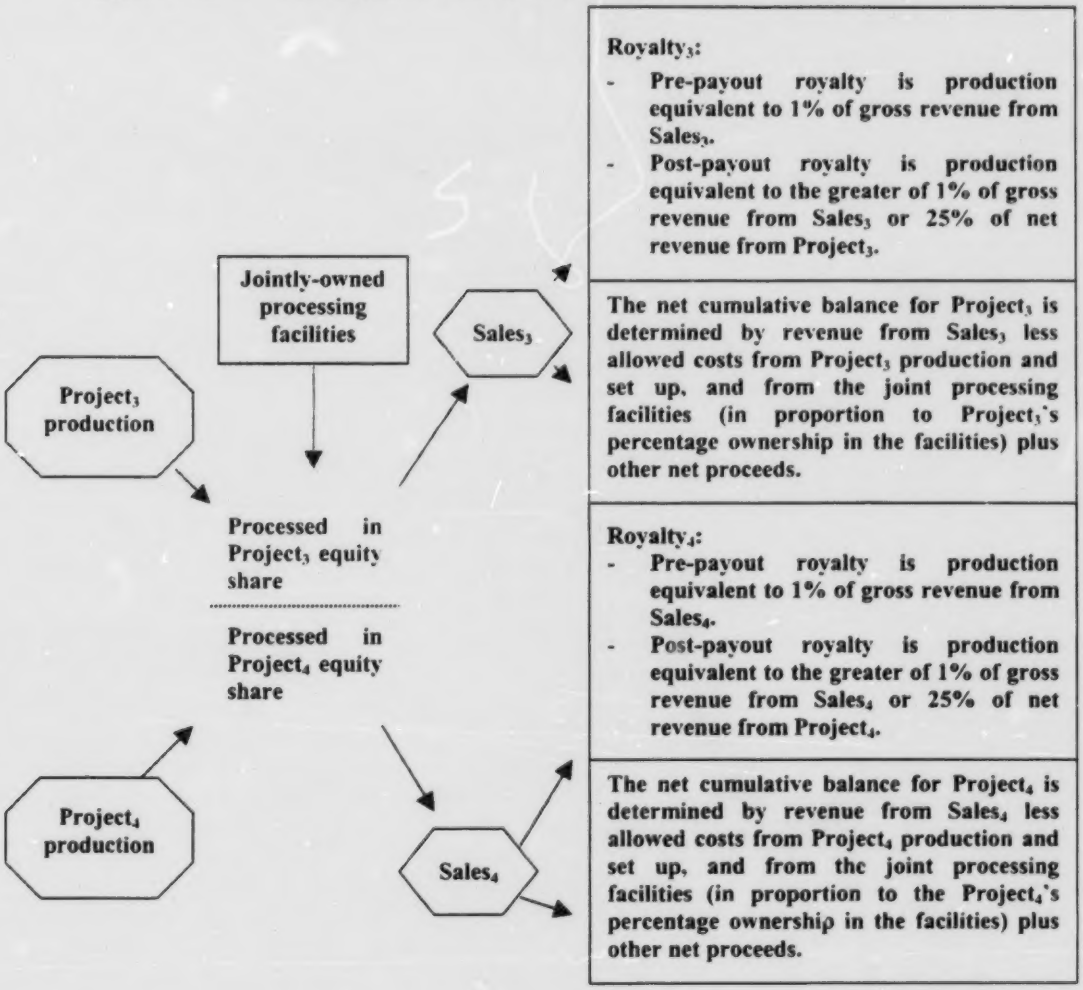

Project$_2$ production
Processing facilities$_2$
Sales$_2$
Royalty$_2$:
- Pre-payout royalty is production equivalent to 1% of gross revenue from Sales$_2$.
- Post-payout royalty is production equivalent to the greater of 1% of gross revenue from Sales$_2$ or 25% of net revenue from Project$_2$.
The net cumulative balance for Project$_2$ is determined by revenue from Sales$_2$ less allowed costs from Project$_2$ production and set up, and from processing facilities$_2$ plus other net proceeds.

Sales$_2$ is the sale of all oil sands products obtained from oil sands rights included in the project. The royalty calculation point is at the outlet of the processing facilities$_2$.

Net revenue from Sales$_2$ is determined by revenue from Sales$_2$ less costs from Project$_2$ production and from processing facilities$_2$. If a project has other net proceeds, these are deducted from allowed costs when determining net revenue.

Figure 1:

Projects 3 and 4 — Two projects with joint ownership of processing facilities


Jointly-owned processing facilities
Sales3
Project3 production
Processed in Project3 equity share
Processed in Project4 equity share
Project4 production
Sales4
Royalty3:
- Pre-payout royalty is production equivalent to 1% of gross revenue from Sales3.
- Post-payout royalty is production equivalent to the greater of 1% of gross revenue from Sales3 or 25% of net revenue from Project3.
The net cumulative balance for Project3 is determined by revenue from Sales3 less allowed costs from Project3 production and set up, and from the joint processing facilities (in proportion to Project3's percentage ownership in the facilities) plus other net proceeds.
Royalty4:
- Pre-payout royalty is production equivalent to 1% of gross revenue from Sales4.
- Post-payout royalty is production equivalent to the greater of 1% of gross revenue from Sales4 or 25% of net revenue from Project4.
The net cumulative balance for Project4 is determined by revenue from Sales4 less allowed costs from Project4 production and set up, and from the joint processing facilities (in proportion to the Project4's percentage ownership in the facilities) plus other net proceeds.

$Sales_3$ and $Sales_4$ are the sale of all oil sands products obtained from oil sands rights included in the projects. The royalty calculation point is at the outlet of the joint processing facility.

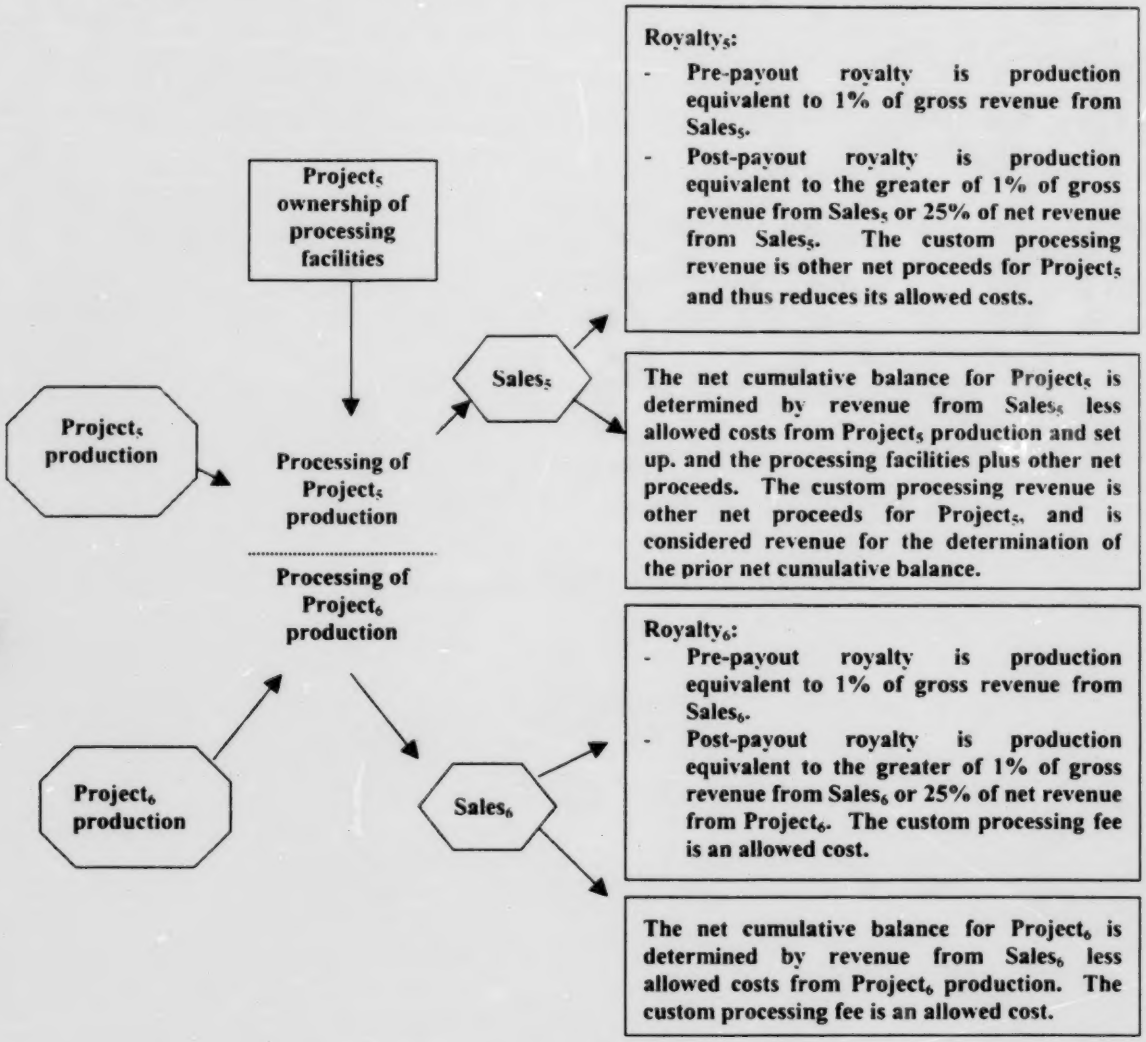
Net revenue for $Project_3$ is determined by revenue from $Sales_3$, less allowed costs from $Project_3$ production and from the joint processing facilities (in proportion to Project's$_3$ percentage ownership in the facilities). If a project has other net proceeds, these are deducted from allowed costs when determining net revenue. Net revenue for $Project_4$ is determined in the same way as for $Project_3$.

NOTE: If a processing plant is owned jointly by project owners and/or non-project owners, the processing done for each project is assumed to be in proportion to each project's ownership in the joint processing facilities (i.e., if ownership is 50/50, processing is assumed to be 50/50). If the processing is not in the same proportion as the ownership, a cost equalization payment is made to account for the difference. This cost equalization payment is intended to ensure one of the joint facility owner(s) is not covering costs for the other joint facility owner(s) for the determination of royalty. The cost equalization payment is treated as custom processing (see Figure 1, Projects 5 and 6). Where the

processing facilities are owned in whole or in part by a participant in the project, or an affiliate of a participant on a non-arm's length basis (see section 3.5), and the facility is not included in the project, custom processing of project substances in the facility would be considered a **basic service**.

Figure 1:

Projects 5 and 6 — One project with processing facilities that process production from another project.


Project5 ownership of processing facilities
Project5 production
Processing of Project5 production
Sales5
Royalty5:
- Pre-payout royalty is production equivalent to 1% of gross revenue from Sales5.
- Post-payout royalty is production equivalent to the greater of 1% of gross revenue from Sales5 or 25% of net revenue from Sales5. The custom processing revenue is other net proceeds for Project5 and thus reduces its allowed costs.
The net cumulative balance for Project5 is determined by revenue from Sales5 less allowed costs from Project5 production and set up. and the processing facilities plus other net proceeds. The custom processing revenue is other net proceeds for Project5, and is considered revenue for the determination of the prior net cumulative balance.
Processing of Project6 production
Project6 production
Sales6
Royalty6:
- Pre-payout royalty is production equivalent to 1% of gross revenue from Sales6.
- Post-payout royalty is production equivalent to the greater of 1% of gross revenue from Sales6 or 25% of net revenue from Project6. The custom processing fee is an allowed cost.
The net cumulative balance for Project6 is determined by revenue from Sales6 less allowed costs from Project6 production. The custom processing fee is an allowed cost.

$Sales_5$ and $Sales_6$ are the sale of all oil sands products obtained from oil sands rights included in the projects. The royalty calculation point is the outlet of the processing facilities.

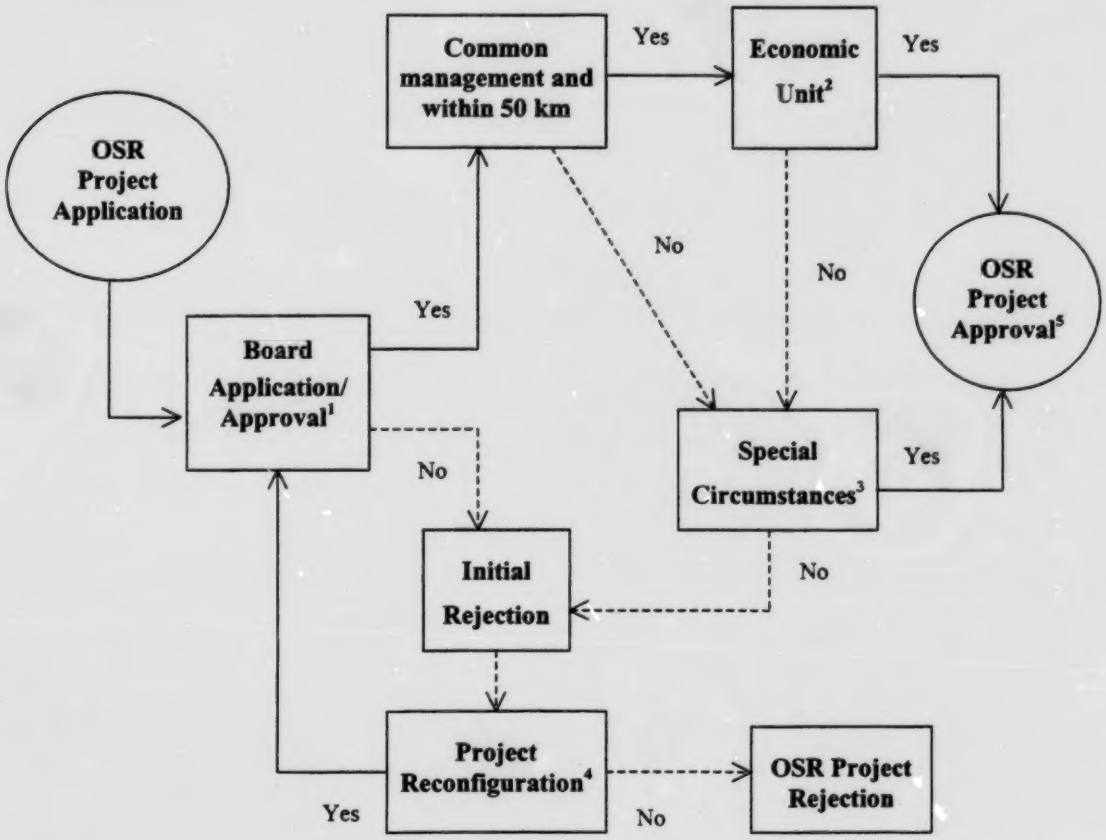
The costs of the processing facilities are an allowed cost for $Project_5$, while the revenues from the custom processing fee is other net proceeds for $Project_5$ and an allowed cost for $Project_6$. Where the processing facilities are owned in whole or in part by one or more participants in the project or affiliates of the participants on a non-arm's length basis (see section 3.5), and the facility is not included in the project, the use of the facility would be considered a basic service.

Net revenue for $Project_5$ is determined by revenue from $Sales_5$ less costs from $Project_5$ production and the processing facilities. The custom-processing revenue is other net proceeds, which reduces allowed costs.

Net revenue for $Project_6$ is determined by revenue from $Sales_6$ less allowed costs from $Project_6$ production, including the custom-processing fee.

Figure 2. Flowchart for Oil Sands Royalty (OSR) project application approval.

The following flowchart illustrates the process the Department will follow in approving an OSR project application:



Notes:

[1]All project components require Board approval, and must include a scheme or operation approved under the *Oil Sands Conservation Act,* in order to receive OSR project approval. The applicant may apply for the OSR and Board approvals concurrently.

[2]Proposed project boundaries and facilities must be justified for economic reasons. If any aspect of the proposed project definition does not materially benefit the project's profitability, the Department will not approve that project definition. The Department will also consider the Crown's royalty share. If the Department determines that any aspect of the proposed project definition results in a shift of the Crown's share of project revenue to the project owner(s) and away from the Crown, the Department will not approve that application until it is amended to protect the Crown's interest.

[3]The Department will consider special or unforeseen circumstances that may justify project approval. Such circumstances will be reviewed on a case-by-case basis, where every case is considered on its own merits. These Guidelines provide direction, but are not intended to replace the requirement for case-by-case consideration.

[4]If a request for project approval is rejected at any level, the applicant must restructure the proposal in order for the project to be reconsidered.

[5]Project approval may contain conditions such as dealing with measurement of costs/revenues, non-arm's length fees, etc.

3.0 ALLOWED COSTS AND REVENUES

The allowed costs described in this section apply to projects approved (or seeking approval) under the *Regulation*. The information provided here is only to assist the user in interpreting the *Regulation*, and not to give an exhaustive list of allowed costs. In all circumstances, the *Regulation* takes priority over these Guidelines.

A project owner or operator does not require approval from the Department to claim costs for a project. In some situations, however, an **advance ruling** may be requested to provide clarification or certainty that a cost is allowed under the *Regulation*. In an advance ruling, the Department will provide an interpretation of the applicable regulations, policies, and guidelines with respect to certain proposed business arrangements (see section 6.0).

3.1 Eligibility

There are two types of projects: Non-Qualifying Joint Venture and Qualifying Joint Venture. Before a project is eligible for approval as a ***Qualifying Joint Venture Project*** (the only current example of this type of venture is Syncrude), it must meet all criteria in *section 19* of the *Regulation*. These are:

- Two or more owners own the project in a joint venture arrangement.
- The operation and management of the project is the sole business activity of the entity that has been appointed as operator of the project.
- The joint venture is established for the sole purpose of producing oil sands products as described in the approvals of the Board for the schemes, operations, and processing plants and other facilities comprising the project.
- The ownership structure of the joint venture is the same for all aspects of the project. This includes any agreement, any freehold lands, and each facility that is in the project. Also, the ownership structure of the joint venture must be consistent with records held by the Department.
- The project operator is assessed as having no income and no deductions for the purposes of the Income Tax Act (Canada).
- No project owner (or group of affiliated project owners) holds a majority of participating interests in the project.
- There is a substantial degree of independence among the project owners.

3.1.1 Principles for Allowed Costs

The following table outlines the characteristics of allowed costs under the *Regulation*:

Allowed Costs Costs with the following characteristics are allowed costs under the *Regulation*.[1]	**Not Allowed Costs** Costs with the following characteristics are not allowed costs under the *Regulation*:[1]
1. It is directly attributable to the project. 2. It is reasonable under the circumstances. 3. It is incurred by or on behalf of the project owners. 4. It is incurred on or after the project effective date. 5. It is incurred to: a. Recover project oil sands products. b. Buy oil sands products for processing or reprocessing at a project processing plant. c. Process or reprocess oil sands or oil sands products at a project processing plant. d. Process: - project oil sands products; or - oil sands products purchased and previously processed in a project processing plant in a non-project processing plant before the oil sands products are delivered at the royalty calculation point. e. Transport oil sands products from one part of the project to another. f. Transport project oil sands products (or oil sands products purchased and previously processed in a project processing plant) from the project to a non-project processing plant that is prior to a royalty calculation point. g. Market project oil sands products. h. Conduct planning, designing, and engineering in relation to project expansions. i. Conduct research directly attributable to the project (except basic research).[2] j. Provide field, office, administrative, or other services for the above with the exception of 'g' and 'h'.[3]	1. It is in respect of overhead or an administrative expense, other than those indicated in the left-hand column.[4] 2. It is on account of interest or any other borrowing or financing cost, or any penalty or charge for late or deficient payment. 3. It is in respect of an overriding royalty interest, a carried interest, a net profit interest or any similar interest.[5] 4. It is an escalating rental paid under the *Oil Sands Tenure Regulation*. 5. It is incurred to acquire an interest or estate in mineral rights.[6] 6. It is in respect of depletion or depreciation. 7. It results from a breach of any applicable government laws, rules or regulations. 8. It is incurred to conduct basic research.[7] 9. It is a fee or expense for dispute resolution. 10. To the extent that: a. It would not be allowed as a deduction under the *Income Tax Act (Canada)* with respect to the human consumption of food, beverages, or entertainment. b. The project receives any credits or discounts. c. The project receives any economic assistance from the Province of Alberta or the Government of Canada. d. It is an allowed cost for another project. e. It is used as a ***unit price*** deduction.

Notes

[1] The information in this table is for Non-Qualifying Joint Venture Projects. Differences from the information in this table for Qualifying Joint Venture Projects are detailed in the footnotes.

[2] For a Qualifying Joint Venture Project, replace this bullet with "Conduct research directly attributable to the project";

[3] For a Qualifying Joint Venture Project, replace this bullet with "Provide field, administrative or other services for the above activities";

[4] For a Qualifying Joint Venture Project, replace this bullet with "It is in respect of management fees that are charged by a project owner or affiliate (see section 3.5), and are not costs of services and materials";

[5] Other than that described in section 101(n) of Schedule 3 to the Metis Settlements Act.

[6] Except to the extent the cost is incurred to perform work for the mineral rights included in the project, or to create infrastructure that is part of the project in order to earn the interest or estate.

[7] For a Qualifying Joint Venture, replace this entire bullet with "It is incurred in relation to the marketing of an oil sands product by a person other than the project operator."

See Appendix 3 for examples of the types of costs that are allowable under the *Regulation*.

3.1.2 GST

The amount of any GST paid, payable, or collected under *Part IX* of the *Excise Tax Act (Canada)* by, or on behalf of, the project owners of a project is not an allowed cost (*section 10* of the *Regulation*).

3.2 Prior Net Cumulative Balance (Opening Balance)

The following information is to clarify issues that may arise in determining the **opening balance** for a project (*section 18* of the *Regulation*).

Costs that may be recognised in the ***prior net cumulative balance*** (PNCB)are costs that were incurred prior to the effective date of the project (or project expansion). Such costs will be recognised providing they are directly related to the oil sands project and are costs that would be allowed if they were incurred after the effective date.

In acknowledging the lead time necessary for implementing an oil sands project (or project expansion), the Crown's share of allowed costs of the project that are incurred up to three years before the effective date of the project (or project expansion) will be recognised. Royalties paid to the Crown for the project during that same period of time, and which correspond to those recognised costs, would also be recognised as a cost. Such royalties must have been paid on project substances recovered from the ***development area*** of the project and paid under the *Oil Sands Royalty Regulation, 1984* or an interim Crown Agreement.

The Crown's share of revenue received for the project substances, and other revenue that would be considered other net proceeds had it occurred after the effective date, will be deducted from the Crown's share of costs recognised for the three-year period and the corresponding Crown royalties that are recognised. Revenue from the sale of project substances, which are subject to being so deducted, are those that correspond to the recognised costs that were incurred to recover the substances.

The three-year period may be extended to up to five years before the effective date of the project if it can be shown, to the Department's satisfaction, that diligent and substantial action was being undertaken toward obtaining Board approval. Costs incurred beyond five years before the effective date will not usually be recognised, with the exception of some asset costs incurred before that time which may be recognised if it can be demonstrated, to the Department's complete satisfaction, that use of these assets will result in significant cost savings to the project.

Costs may also be excluded from prior net cumulative balance if they are:

(a) costs incurred during a time when development of oil sands in the development area of the project was, in the Minister's opinion, substantially suspended or abandoned;

(b) costs incurred to recover oil sands substances to which the *Experimental Oil Sands Royalty Regulation* applied; or

(c) costs that would not qualify as allowed costs if they occurred after the effective date of the project. This ensures consistency in the treatment of costs during the ***period*** before or after the project's effective date.

3.3 Cost Timing Rules

An allowed cost is deemed to be incurred (*section 7[2]* of the *Regulation*):

(a) in the month in which the cost is payable (obligation to pay arises); if

i. the month occurs during a ***pre-payout period*** and the cost is paid not more than 12 months after the end of that month, or

ii. the month occurs during a ***post-payout period*** and the cost is paid before the end of the calendar year following the period. For example, if the period is the calendar year, and an invoice is received by a project owner in July of year 1, for the cost to be claimed in that month, it must be paid no later than December 31 of year 2.

OR

(b) in the month in which the cost is paid, in any other case.

For a non-arm's length transaction (see section 3.5) where no invoice has been provided, the cost of the services or materials provided is deemed to be incurred in the month in which the services were supplied or the materials were received at the project.

3.4 Fair Market Value

For the purposes of the *Regulation*, ***fair market value*** will be the value determined by the Minister on the basis of transactions occurring in comparable open markets among persons who are not affiliated with each other (*section 9* of the *Regulation*). The determination of what constitutes a "comparable open market" is a function of the situation. This subject is currently under review.

In determining fair market value for a good or service (see section 3.5; for pipelines, see section 3.5.1.4) that is provided to a project through an arm's-length transaction, the Minister may adopt, without limiting any other method, the following methods:

- The price of comparable goods or services, if that price is published and generally adopted by buyers and sellers of such goods and services.
- A price for comparable goods or services that is prescribed by the Minister under another Regulation (such as Alberta Reference Price for Natural Gas).
- An average of the prices paid for comparable goods or services in transactions in which the buyers and sellers are not affiliates of each other.

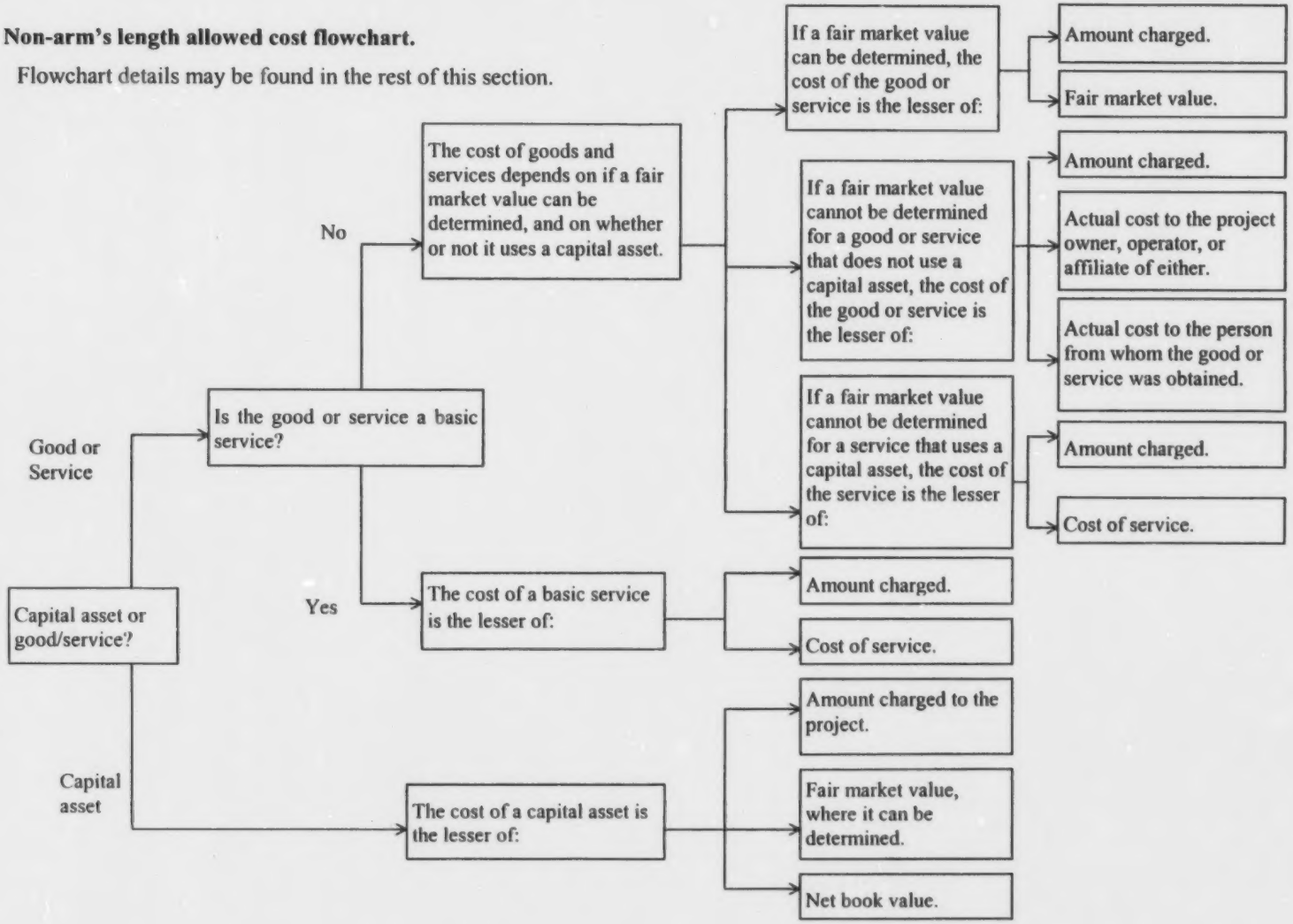
The price or average of prices used to determine fair market value may be adjusted to reflect transportation or delivery costs, if any, from the point at which fair market value is determined to the project area.

3.5 Non-Arm's Length Transactions

The following subsections apply if any item is provided to the project, unless that item is obtained from a person who is not affiliated with the project owner or operator. Refer to *section 2* of the *Regulation* for affiliate rules. Figure 3 provides an overview of how allowed costs are determined for non-arm's length transactions.

Figure 3. Non-arm's length allowed cost flowchart.

Flowchart details may be found in the rest of this section.


Capital asset or good/service?
Good or Service
Is the good or service a basic service?
No
The cost of goods and services depends on if a fair market value can be determined, and on whether or not it uses a capital asset.
If a fair market value can be determined, the cost of the good or service is the lesser of:
Amount charged.
Fair market value.
If a fair market value cannot be determined for a good or service that does not use a capital asset, the cost of the good or service is the lesser of:
Amount charged.
Actual cost to the project owner, operator, or affiliate of either.
Actual cost to the person from whom the good or service was obtained.
If a fair market value cannot be determined for a service that uses a capital asset, the cost of the service is the lesser of:
Amount charged.
Cost of service.
Yes
The cost of a basic service is the lesser of:
Amount charged.
Cost of service.
Capital asset
The cost of a capital asset is the lesser of:
Amount charged to the project.
Fair market value, where it can be determined.
Net book value.

3.5.1 Goods and Services

The allowed cost for non-arm's length transactions for goods and services depends on whether or not it is a basic service, if a fair market value can reasonably be determined, and if it is provided using a capital asset. Note that specific allowed cost treatment of ***non-basic pipelines*** and co-generation plants are outlined in separate sections below (section 3.5.1.4 for non-basic pipelines and section 3.5.1.5 for co-generation plants).

3.5.1.1 Basic Services

A basic service is any service provided to a project from a non-arm's length capital asset that is required to produce the project's products. As a minimum, the project's product is the first marketable oil sands product, which is cleaned crude bitumen; however, projects may be defined as producing something more than cleaned crude bitumen (see section 3.7 for the treatment of non-bitumen oil sands products).

Examples of basic services could include use of capital items such as wells, gathering lines, production and separation facilities, cleaning facilities, on-site power transmission and distribution lines, and steam provided from co-generation plants. Basic services do not include electricity provided from a co-generation plant or natural gas, both of which are defined as goods under the *Regulation*.

Basic services are charged to the project at the lesser of:

(a) the ***amount charged to the project*** by the project owner(s) or affiliate(s); or

(b) the cost of service.

The cost of service will provide for a rate of return based on the LTBR, and the depreciation rate will be based on the 5% annual straight-line method. *The Joint Industry Task Force Report on Processing Fees (JP-95)* was used as a general guideline, but is not binding in determining the cost of service for a facility. The rate of return on capital and depreciation will be determined as described above, and there will be no minimum capital rate base (i.e., 50%), as suggested by the JP-95. The annual depreciation charge and capital return will be allocated on the capacity of the capital asset, and operating costs for the capital asset will be allocated on annual throughput.

3.5.1.2 Goods and Non-Basic Services

Allowed costs for goods and non-basic services depend on whether a fair market value can reasonably be determined, and whether it is provided using a capital asset. Where a fair market value can reasonably be determined for goods and non-basic services that do not use a capital asset, the allowed cost of the good(s) or non-basic service(s) will be the lesser of:

(a) the amount charged to the project; or

(b) fair market value.

Where fair market value cannot reasonably be determined for goods and non-basic services that do not use a capital asset, the allowed cost of the good(s) or service(s) will be the lesser of:

(a) the amount charged to the project; or

(b) the actual cost incurred by the project owner, operator, or an affiliate of either (or the person from whom the good or service was obtained), to produce the good or perform the service.

3.5.1.3 Non-Project Capital Asset Providing a Non-Basic Service to the Project

Except in the case of non-basic pipelines and co-generation plants (see sections 3.5.1.4 and 3.5.1.5 below, respectively), where fair market value can reasonably be determined for a non-basic service provided by a non-project capital asset, the cost of the service will be the lesser of:

(a) the amount charged to the project; or

(b) fair market value.

Where fair market value cannot reasonably be determined for a non-basic service provided by a non-project capital asset, the cost of the service will be the lesser of:

(a) the amount charged to the project; or

(b) the cost of service.

The cost of service will provide for a rate of return based on the LTBR plus a risk premium to reflect the risk of operating the capital asset. Periodically, the Minister will re-assess the risk premium and re-set the amount as required. Depreciation will be based on the annual straight-line method, with the depreciation rate determined by the Minister as required. JP-95 can be used as a general guideline, but it is not binding in determining the cost of service for a capital asset. The rate of return on capital and depreciation will be determined as described above. There will be no minimum capital rate base (i.e., 50%), as suggested by the JP-95. The annual depreciation charge and capital return will be allocated on the capacity of the capital asset, and operating costs for the capital asset will be allocated on annual throughput.

3.5.1.4 Non-Basic Pipelines

Note: Issues regarding linefill, overcapacity, sales of non-arm's length pipelines, and capital additions are still under development.

In the case of a non-basic pipeline providing transportation of oil sands products from a project, if a fair market value can be determined for the transportation service, the pipeline charge allowed for a unit price deduction will be the lesser of:

(a) the amount charged to the project; or

(b) fair market value.

In determining fair market value of the transportation service, the Minister may adopt:

(i) A regulated tariff charged for the service.

(ii) A tariff charged by the owner of the pipeline, if:

- the conditions under (i) do not apply,
- the pipeline is subject to a complaint-based regulation,
- the tariff is generally agreed to and paid by unaffiliated shippers who obtain the service,
- the pipeline has published tariffs,
- the tariffs and other terms of obtaining service do not unjustly discriminate among shippers seeking service, and
- the tariff is just and reasonable under the circumstances.

(iii) A tariff of either (a) the weighted average of prices paid by unaffiliated shippers for comparable service, or (b) if there is no comparable service, the weighted average of prices for all unaffiliated service on a pipeline, if:

- the conditions under (i) and (ii) do not apply,
- the pipeline is subject to a complaint-based regulation,
- not less than 2/3 of the volume of oil sands product shipped on the pipeline is owned by unaffiliated shippers, and
- the weighted average price is just and reasonable under the circumstances.

A pipeline is subject to regulation on a complaint basis if a customer or potential customer of the pipeline can, by complaint to a regulatory authority, have the pipeline terms of service and the charges for service reviewed and fixed.

In the case of a non-basic pipeline providing transportation of oil sands products from a project, if a fair market value cannot be determined for the transportation service, the pipeline charge allowed for a unit price deduction will be the lesser of:

(a) the amount charged to the project; or

(b) the cost of service.

The cost of service calculation methodology for non-basic pipelines is given below:

1. The annual depreciation charge, capital return, and operating costs for the non-basic pipeline will be allocated on annual throughput.
2. The pipeline's allowed capital costs will be depreciated on a straight-line basis over its useful life, which for royalty calculation purposes is estimated to be not less than 20 years (5% straight-line depreciation).
3. There will be no floor on the undepreciated capital balance to determine the return on capital.
4. The allowed rate of return on capital (RORC) will be calculated using a pre-tax weighted average cost of capital formula, which is:

$$(\text{RORC}) = \left(\begin{matrix}\text{Deemed Debt}\\ \text{Percentage}\end{matrix}\right)\left(\begin{matrix}\text{Deemed Cost}\\ \text{of Debt}\end{matrix}\right) + \left(\begin{matrix}\text{Deemed Equity}\\ \text{Percentage}\end{matrix}\right)\frac{\text{Deemed Cost of Equity}}{(1 - \text{Deemed Corporate Income Tax Rate})}$$

5. The parameters in this formula are as follows:
   - Deemed debt percentage = 45%,
   - Deemed equity percentage = 55%,
   - Deemed cost of debt = LTBR plus 1%, and
   - Deemed cost of equity = the multi-pipeline rate, as published by the National Energy Board on an annual basis.
6. Other parameters (capital structure and corporate income tax rate) will be revisited at the Department's discretion, or when there are significant market or tax changes.

7. The RORC is calculated as a pre-tax weighted average cost of capital formula with corporate income taxes payable accounted for within the formula. Accordingly, taxes will not be included in the pipeline's revenue requirement.

In each instance where a cost of service calculation is applied to determine the allowed cost for a project or a deduction from the unit price, the calculation may be revisited periodically at the discretion of the Minister.

3.5.1.5 Cost of Service for a Co-generation Plant

This section is under development.

3.5.2 Capital

Capital assets will be valued when the asset is delivered to the project site, at the lesser of:

(a) the amount charged to the project;

(b) fair market value (where it can be reasonably determined); or

(c) **net book value** of the asset to the project owner or operator, or to the person from whom the asset was obtained by the project owner or operator.

The net book value is the undepreciated amount (original cost less accumulated depreciation) of the asset to the project owner, operator or other person who provided the asset. The value will be according to the financial records (consistent with GAAP) of the project owner, operator or other person. The Department's records will be used if the capital asset was claimed under another royalty regime (examples are the Natural Gas Royalty Regulation, 1994, and the Enhanced Recovery of Oil Royalty Reduction Regulation).

3.6 Hedging

Hedges

Hedges are transactions dealing with financial derivative-type instruments such as futures, contracts, or swap arrangements. Hedgers can be defined as "*corporations or individuals who deal in the actual commodities or financial instruments, and buy or sell futures contracts to protect their holdings or expected holdings in the cash market*" (Canadian Securities Institute). Generally there is a contract for the physical commodity or item sold or purchased that is delivered or received. This physical commodity contract could be based on spot prices or on a longer-term, fixed-price contract. A separate contract may be entered into to mitigate (hedge) any fluctuations in the actual commodity price or currency, as a result of entering into the initial contract. Gains or losses from entering into hedge contracts can occur.

Hedging Revenues and Losses

Any gains or losses or costs resulting from the hedging of an oil sands product are not allowed.

Costs

Hedging transactions related to costs that are directly attributable to the project, and are incurred by or on behalf of the project owners, are allowed provided that:

(a) the Department is notified of the project owner's or operator's policy on hedging;

(b) the hedge is not for speculative purposes;

(c) the hedging transaction gains/losses and costs are clearly documented for the items and/or currency hedged with respect to the project; and

(d) the hedging transaction must be specific to the project. Hedging gains/losses and costs that are done at a broad corporate level will not be allocated to the project.

3.7 Revenues

Revenues for a project approved under the *Regulation*, are described below.

Project Revenue

Project revenue is the sum of all quantities of oil sands products derived from a project's development area multiplied by their respective unit price.

For a given oil sands product, the unit price is calculated at a royalty calculation point for the product, as follows:

$$\text{Unit price} = \frac{\text{TC-HC}}{\text{TD}}$$

Where:

TC = the total consideration received or receivable by the seller of the oil sands product.

HC = all **handling charges**, export charges, pipeline tariff charges, terminal charges, processing charges, and charges of similar nature that are paid to move the oil sands product from the royalty calculation point to either the point of sale or to an Alberta export terminus. NOTE: Costs used in the calculation of the unit price are not eligible as allowed costs.

TD = the total quantity or **sales volume** of the oil sands product.

Net Revenue

Net revenue for a project means the amount by which project revenue for a period exceeds the allowed costs. In determining the net revenue, the allowed costs are first reduced by the other net proceeds of the project. If other net proceeds exceed the allowed costs for the period, the excess amount is carried forward to the next period.

Other Net Proceeds

Other net proceeds (refer to *section 22* of the *Regulation*) generally refers to any consideration received or receivable during the period from the sale, lease, license or other disposition of any substances or assets (excluding oil sands products derived from the project's development area) or technology of the project. In addition, any proceeds received or receivable from an insurance policy (provided the insurance premium was included as an allowed cost), or from a litigation settlement or threatened litigation (unless the litigation is against the Crown), are included as other net proceeds.

Other net proceeds also include custom processing revenues. Where a co-generation plant is considered a part of the project, revenues from the sale of electricity are considered other net proceeds. Where a portion of a co-generation plant or a proportionate interest in a co-generation plant is included in the project, all revenues from the sale of goods or services attributable to such proportion or proportionate share of the plant shall be included in other net proceeds of the project.

Gross Revenue

Gross revenue for a project means the project revenue of a project less the ***cost of diluent*** contained in any ***blended bitumen*** included in the calculation of that project revenue.

Prior to a ***project's payout date***, the applicable royalty is 1% of project ***gross revenue***. After a project's payout, the applicable royalty is equivalent to the greatest of 25% of project ***net revenue***, or 1% of gross revenue (see *section 125.1* of the *Act*).

For a project that is in pre-payout, royalty is a share of production equivalent to 1% of gross revenue. For a post-payout project, royalty is a share of production equivalent to, or the greater of, 1% of gross revenue or 25% of net revenue.

3.7.1 Revenue Rules

Under *section 8* of the *Regulation*, when consideration other than money is received or receivable, whether alone or in addition to money, the amount of consideration is deemed to be the greater of fair market value and the value agreed to by the persons giving and receiving the consideration.

For transactions that involve only the project participants or an affiliated company, the amount of the consideration is deemed to be the greater of:

(a) the fair market value of the thing for which consideration is received or receivable; and

(b) the total of the money received or receivable and the greater of the amount agreed to by the persons giving and receiving the consideration that does not include money or the fair market value of that consideration.

When no consideration is received or receivable under a transaction, the amount of the consideration is deemed to be the fair market value.

3.8 Pre-Payout and Post-Payout Periods and Application of Return Allowance

3.8.1 Pre-Payout Period

For a project that is in a pre-payout period, the excess of the ***cumulative costs*** over ***cumulative revenues*** of the project at the end of the month, multiplied by the LTBR for the month (see *section 125.1* of the *Act*), is the return allowance and an allowed cost for the following month (see section 5.0 on Reporting).

3.8.2 Post-Payout Period

Minimum royalty (i.e., based on 1% of gross revenue) that is paid in a post-payout period is, to the extent it exceeds the net revenue royalty (i.e., based on 25% of net revenue) for the same period, an allowed cost for the next post-payout period of the project.

The ***net loss*** of a project in a post-payout period is an allowed cost of the project for the next post-payout period. A return allowance is also provided on the net loss for a period as follows:

(a) if the project did not have a net loss in the previous period, then the LTBR for the current period (see *section 125.1* of the *Act*) is multiplied by the product of 183/365 and the net loss for that current period; or

(b) if the project had a net loss in the previous period, the return allowance is calculated by multiplying the LTBR for the current period by the net loss for the current period.

If a project is expanding, the prior net cumulative balance of the project expansion is an allowed cost (if it is a positive amount; i.e., recognised costs and royalties exceed recognised revenues) for the period in which the effective date of the project expansion occurs. Once a project goes into post-payout, it cannot revert to pre-payout status.

4.0 RESEARCH AND DEVELOPMENT

The Department considers oil sands research and development (R&D) critical to the continued competitiveness of the oil sands areas of Alberta; therefore, certain R&D costs are recognised as being eligible.

R&D costs are considered eligible or allowed costs if they are directly attributable, reasonable, incurred and paid after the date on which the project was approved.

The R&D costs incurred before the project effective date may, within the requirements of *section 18* of the *Regulation* and including the requirements for allowed costs, be included in determining a prior net cumulative balance.

4.1 Allowed R&D Costs

R&D costs that can be demonstrated clearly to be directly attributable to an approved project are allowed under *Schedule 1 section 2(e)(ix)*, and *Schedule 2 section 2(e)(ix)* of the *Regulation* for non-qualifying and qualifying joint ventures, respectively. Qualifying Joint Venture Projects are defined in *section 19* of the *Regulation*. For Non-Qualifying Joint Venture Projects, basic research is not eligible *(Schedule 1 section 3[g])*. The objective of basic research is to gain knowledge or understanding of phenomena without specific applications in mind.

The scope of allowable R&D costs is determined by the project description. For example, if an approved project includes an upgrader, then research costs that are directly attributable to that upgrader may be eligible. Market research as a planning and design expense may be eligible (*Schedules 1* and *2, section 2[e][viii]* of the *Regulation*); however, market research to determine upgrader requirements is not considered an R&D cost.

Costs must reflect an actual financial transaction, one that is actually incurred and supported by documentation, and which has specific practical application to the project. Costs must also be reasonable. This does not preclude research that is undertaken outside the project site, provided the research is related directly to activities within the project.

R&D management and membership fees are not allowed costs. However, costs incurred to support a specific consortium research activity that has direct applicability, may be considered eligible.

If a project receives any credit or discount from actual research costs, regardless of where that credit or discount comes from, only net research costs are allowed. This includes credit for research that is received from other programs in Alberta, or from any other jurisdiction in which the research is recognised. Economic assistance in the form of an income tax reduction is excluded (*Schedules 1* and *2, section 3[j]* of the *Regulation*). Recognition of such credits or discounts would result in double counting the benefit to the operator. In addition, if a project owner or operator is conducting research, and recovers costs from other industry participants, those cost recovery revenues must be included as other net proceeds to ensure that research costs are only counted once under the *Regulation*.

The operator should be prepared to provide sufficient information to support the claim of eligibility for the R&D costs.

4.2 Approval and Audit Process

All R&D costs claimed by the project are subject to concept and financial audits by the Department. A **concept audit** verifies that the purpose of the R&D is directly attributable to the project. For example, applied research may be taking place but its applicability to the project is marginal. A concept audit would conclude that such research does not meet the "directly attributable" criteria, therefore making the costs ineligible. Alternatively, the audit may conclude that a proportion of the costs are eligible, requiring the auditor to verify the subsequent financial allocation of costs between projects, including verification that no double counting is occurring. A financial audit is predicated on the outcome that the concept audit has found the R&D costs to be eligible, and that the costs have actually been incurred.

A concept audit by the Department would be based on the "directly attributable" test of the R&D's value to the project, including considerations such as the following:

- how the R&D advances specific knowledge with a specific practical application to the project (NOTE: The research does not have to be successful, but it must have the potential to provide meaningful insight or understanding of a problem that is being encountered by the project);
- the type and nature of deliverables;
- the location of the R&D (NOTE: The research does not have to be on-site, but there should be supporting documentation indicating why the off-site location is preferable, especially if it is outside Alberta); and
- whether the findings are expected to be applicable within a reasonable time frame (NOTE: A five-year period has been suggested as being a good "rule of thumb"; however, a project operator can suggest a longer time frame provided it is supported with documentation and meets the directly attributable test).

In order to facilitate audits and ensure accountability, a budgetary approval document, such as an Approval for Expenditure (AFE), must support the link between the corporate decision to undertake a specific R&D activity, the actual expenditure and results, and the ability for the Department to review the R&D activity after the fact (even if pre-approval is provided—see subsection 4.2.1). While it is not necessary for the budgetary approval document to be the same for all operators, the content and the required link must be provided.

The budgetary approval document must be able to accommodate varying types of expenditures, including allocation to capital or operating budgets. The minimum content requirements are as follows:

- statement of R&D intent (must support directly attributable test);
- description of R&D (scope, legal description of applicable R&D activity leases, external approvals required);
- description of planned expenditures (total and by period);
- location of research (including supporting rationale if located outside Alberta, and indication of financial support from Alberta programs and from other jurisdictions);
- R&D participants;
- expected deliverables (with dates);
- R&D timeframe; and

- signature of the corporate officer authorising the expenditure.

The required information listed above is the same for a pre-approval as it is for an after-the-fact audit.

The Department will conduct both the concept audit and financial audit. The audit will follow the trail of the budgetary approval document, which, along with all supporting documentation, would be retained and reviewed by the auditors in the project operator's office. The only information required to be on file with the Department would be reference to the budgetary approval document, such as an AFE number.

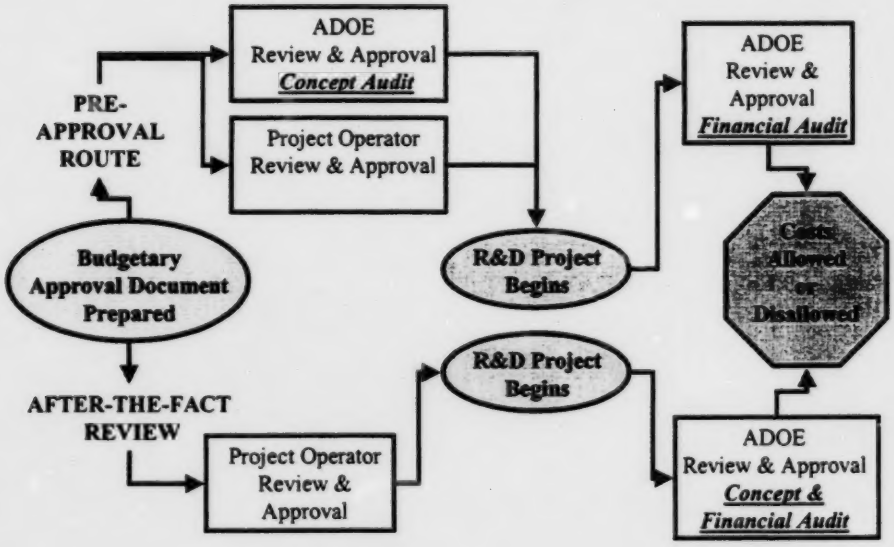
4.2.1 Pre-approval of R&D Costs

To mitigate the risk that R&D costs would be found ineligible, firms can apply for pre-approval (a concept audit) before undertaking related activities. The timing of the Department pre-approval should parallel the project operator approval process to facilitate discussion and understanding. Upon receiving a formal application for pre-approval, the Department has set a target of a 45-day turnaround. This type of pre-approval is a form of advance ruling (refer to section 6.0).

The following R&D review process diagram illustrates the approval and audit process:

Figure 4.

OSRR R&D REVIEW PROCESS



5.0 REPORTING

Sections 28 and *29* of the *Regulation* set out the parameters for the reporting required of projects approved under the *Regulation*. A joint industry and Department task group reviewed the format and content of the reports. The type of report required is dependent upon the project being in a pre-payout period or a post-payout period, as well as for the time being reported. Failure to provide the Department with any of the reports by the required due date may result in penalties being levied, in addition to interest being assessed if a corresponding payment is also late (see section 5.6).

5.1 Pre-Payout Project Monthly Reporting

5.1.1 Royalty Calculation and Payment

The Crown's royalty share for projects that are in a pre-payout period is payable monthly and is 1% of the quantity of the oil sands product delivered to a royalty calculation point for the product (i.e., equivalent to 1% of the gross revenue). The royalty proceeds from the disposition of the Crown's royalty share are calculated by multiplying the Crown's royalty share quantity by the unit price applicable to the quantity. If the product contains ***diluent***, then the cost of diluent contained in the Crown's royalty share is deducted from the disposition proceeds payable to the Crown. *Section 31* of the *Regulation* requires that proceeds from disposition of the Crown's royalty share must be paid to the Crown on or before the last day of the month following the month in which the Crown's royalty share is sold or otherwise disposed.

5.1.2 Monthly Report

The **pre-payout monthly report** (Forms MRC 1a-1d) requires project identification information and the month being reported. As the unit price of each leased oil sands product is the basis for the royalty calculation, a separate pre-payout monthly report must be completed for each leased oil sands product. Sales volume and **sales revenue** must be reported, and the **sales price** calculated. Any handling charges must be reported in order to calculate the unit price for the product. If diluent is included in the sales product, then the volume and cost of diluent must be reported so that it can be deducted from the Crown's royalty share. Crude bitumen net sales volume and net price must be reported as well as the crude bitumen produced by the project for the month. If the project is subject to a **unit agreement**, then the Crown and freehold production volumes must be reported individually.

A senior representative of the operator or authorised delegate must sign the pre-payout monthly report. As well, the individual who completed the report must include a contact telephone number.

The pre-payout monthly report must be submitted by the last day of the month following the **production month**. An exception to this rule is the instance in which a project is approved with a retroactive effective date. This exception occurs only with newly approved or amalgamated projects.

Example: A project is approved in March but given an effective date of January. In this instance, the monthly reports for January, February and March are due by the end of April.

Failure to provide the Department with the pre-payout monthly report by the last day of the month following the production month may result in penalties being levied, in addition to interest being assessed if the monthly royalty payment is also late (see section 5.6).

The submission of an amended pre-payout monthly report may result in a different royalty payable being calculated; however, its due date remains unchanged from the original due date of the payment. Consequently, royalty underpayments will be subject to interest charges from the original royalty

payment due date until such time as any additional royalty is paid. Any royalty overpayment made by the operator, either initially or as the result of an amended pre-payout monthly report, is not an amount for which the Crown is liable to pay interest.

(see Appendix 4)

5.2 Pre-Payout Project End of Period Reporting

5.2.1 End of Period Statement

The **End of Period Statement** is a detailed summary of the operations of the project from a financial and production perspective, and must be signed by the controller (or an equivalent officer) of the operator of the project. Under *section 29* of the *Regulation*, the project must submit an End of Period Statement within three months of the end of each period. Normally a period will end December 31, therefore requiring that an End of Period Statement be submitted by March 31 of the following year. Failure to provide the Department with an End of Period Statement within this time period may result in penalties being levied (see section 5.6).

The End of Period Statement must match the pre-payout monthly report's production, revenue and royalty figures. The End of Period Statement is not a mechanism for making adjustments to pre-payout monthly reports. If it is determined that a pre-payout monthly report requires adjustment, then an amended pre-payout monthly report should be submitted, along with any additional payment and interest. The revised amounts can then be stated on the End of Period Statements. Pre-payout monthly reports cannot be amended after the Department has accepted the End of Period Statement.

The Department will not accept amendments to the End of Period Statements that are received after the filing deadline. If new financial information becomes available for a period for which End of Period Statements have already been filed, the operator should contact the Department immediately to discuss any potential royalty adjustments. The adjustment is to be reported on the next End of Period Statement to be submitted.

The End of Period Statement contains the following schedules:

Auditor's Letter (Form PRE-1) — This is required only if the project has crude bitumen sales averaging greater than 10,000 barrels per day (1,590 m^3/day) during the period. The auditor must be an independent firm engaged to perform the audit. If crude bitumen sales are less than the 10,000 barrels per day (1,590 m^3/day) average, then statements prepared by management will be accepted. In either case, the statements will be subject to an audit performed under the direction of the Crown.

Project Payout Status (Form PRE-2) — This schedule summarises the cumulative cost and cumulative revenue for the prior periods, and adds the allowed costs (includes cost of diluent) and revenues (i.e., project revenue plus other net proceeds) for the current period to determine the net cumulative balance of the project. The operator is required to include an estimated date of payout for the project, and to provide the key assumptions in arriving at that estimate.

Allowed Costs (Form PRE-3) — This schedule provides a summary of the allowed costs incurred by the project. The allowed costs must be broken down into the subsidiary categories. A supplementary page (Form PRE-3 supp-a) outlining costs per month and by category (using categories chosen by the operator) is required. In the case of a project with crude bitumen sales greater than the 10,000 barrels per day (1,590 m^3/day) average, the supplementary detailed list of costs does not need to be audited by the independent auditor.

Return Allowance (Form PRE-4) — This schedule provides the calculation for the **monthly return allowance**. The monthly return allowance (see *section 125.1* of the *Act*) is provided on the net cumulative balance for the project using the monthly equivalent of the simple average of that month's LTBR (i.e., monthly rate = $(1+LTBR)^{1/12} - 1$). The LTBR is published by the Bank of Canada each Wednesday and can be accessed through the Bank of Canada's website on the Internet (http://www.bank-banque-canada.ca/pdf/wfs.pdf). The monthly return allowance earned, along with allowed costs and royalty paid for that month, is added to the previous month's cumulative cost to get the current cumulative cost for the project.

Revenue (Form PRE-5) — This schedule provides a summary of the total revenue generated for each month of the period. Sales revenue less all handling charges and cost of diluent determine the gross revenue of the project. Other net proceeds are added to the gross revenue to determine the cumulative revenue of the project. The details for each of this schedule's numbers are to be provided on the royalty schedules.

Royalty (Form PRE-6) — This schedule identifies the Crown's royalty share payable for each leased oil sands product delivered to a royalty calculation point. The total royalty payable for the period should equal the total royalty actually paid by the operator. The details of each leased oil sands product's royalty share are to be provided on the royalty detail sheets (Forms PRE-6a through PRE-6d, as required).

Royalty Detail (Forms PRE-6a–PRE-6d) — These schedules provide the details that otherwise would have to be included on the revenue and royalty schedules. Each leased oil sands product sold by the project operator will require an individual royalty detail schedule as each is anticipated to have a different unit price. Projects need only submit royalty detail schedules for products the projects have sold. Sales volume and sales revenue must be identified, as well as any handling charges, in order to calculate the unit price for the product.

The Crown's royalty share is 1% of the quantity of the product sold. The royalty proceeds from the disposition of the Crown's royalty share are calculated by multiplying the Crown's royalty share quantity by the unit price applicable to the quantity. If the product contains diluent, then the cost of diluent contained in the Crown's royalty share is deducted from the disposition proceeds payable to the Crown. The royalty payable for the period should be the same as the royalty actually paid. The pre-payout monthly reports should match the royalty detail schedules for the production period.

(see Appendix 5)

5.3 Post-Payout Project Monthly Reporting

5.3.1 Royalty Calculation and Payment

The Crown's royalty share for projects that are in a post-payout period is calculated based on the total royalty estimated to be payable for the entire period, and is then payable as a monthly installment (adjusted each month).

The Crown's royalty share is the greater of:

(a) 1% of the quantity of leased oil sands product delivered to a royalty calculation point for the product; or

(b) the percentage of the quantity of leased oil sands product delivered to a royalty calculation point for the product, as calculated by the following formula:

$$R\% = \frac{25\ NR}{GR}$$

R% = the Crown's royalty share of the leased oil sands product, expressed as a percentage of the leased oil sands product on which royalty is payable.

NR = the net revenue for the project for the period.

GR = the gross revenue of the project for the period.

Essentially, the Crown's royalty share calculation results in a Crown's royalty share equivalent to the greater of

(a) 1% gross revenue for the period; or

(b) 25% net revenue for the period.

5.3.2 Monthly Report (Good Faith Estimate)

The **post-payout monthly report (good faith estimate, Form GFE-1)** requests project identification information similar to the pre-payout monthly report. Note, however, that the GFE is much more comprehensive.

In a post-payout period, royalty is payable in monthly installments that are adjusted each month based on that month's estimate of the total royalty to be payable for the period. The royalty payable for the period is the greater of 1% gross revenue or 25% net revenue, necessitating the calculation of both. The net revenue position of the project can vary each month depending on expenditures and revenues (both actual and forecast); therefore, a revised royalty estimate must be provided each month. As a result of these obligations, significant additional financial detail is necessary in the GFE.

The GFE provides financial detail for each month during the period—actual figures for past months and estimated figures for future months. It is imperative that accurate estimates be provided since these directly affect the amount of royalty estimated and remitted for the period. For the purposes of this section of the Guidelines, the word "disposed" applies to both the actual and estimated figures.

The crude bitumen production, or estimated production, and crude bitumen net price must be reported. The crude bitumen net price is calculated to be the **realised revenue** less the cost of diluent over the quantity of crude bitumen, blended bitumen (less diluent volume), and ***synthetic crude oil*** (SCO) disposed.

Sales volume, sales revenue, and handling charges must be reported for each leased oil sands product disposed, and the relevant unit price calculated. The sum of all leased oil sands products less their respective handling charges determines the project revenue, which is used to calculate the net revenue. The project revenue less the cost of diluent determines the gross revenue.

Allowed costs are categorised generally into net loss carried forward, plant operations and capital. Note that cost of diluent is included in the plant operations category. Allowed costs can be reduced by the total amount of other net proceeds; however, the reduction cannot exceed the original amount of the allowed costs. If the other net proceeds exceed the allowed costs, the excess is carried forward, and continues to be carried forward until it is depleted.

The net revenue or net loss position of the project is determined using the project revenue less allowed costs. The allowed costs will be reduced by the other net proceeds earned by the project. If the other net proceeds exceed the total of allowed costs, then the allowed costs will be reduced to zero and the unused portion of the other net proceeds will be carried forward to the next period. If a net loss occurs, it is carried forward to the next period as an allowed cost.

The royalty for the month is based on the greater of 25% of the period's estimated net revenue or 1% of the period's estimated gross revenue. If 25% of the period's estimated net revenue is greater, then the royalty installment is 25% of the period's estimated net revenue multiplied by the gross revenue for the portion of the period ending with the month. It is then divided by the estimated gross revenue for the period, less the cumulative royalty paid in previous months of the period. If 1% of the period's estimated gross revenue is greater, the royalty installment is 1% of the period's gross revenue for the portion of the period ending with the month, less the cumulative royalty paid in previous months of the period.

A senior representative of the operator or authorised delegate must sign the GFE, and the individual who completed the form must include a contact telephone number.

The GFE must be submitted by the last day of the month following the production month. An exception to this is where a project is amalgamated with another project, and a retroactive effective date occurs (see the following example):

Example: A project is approved in March but given an effective date of January. In this instance, January and February's reports along with March's are due by the end of April.

Failure to provide the Department with the GFE by the last day of the month following the production month may result in penalties being levied. In addition, interest will be assessed if the monthly royalty installment is also late (see section 5.6).

(see Appendix 6)

5.4 Post-Payout Project End of Period Reporting

5.4.1 End of Period Statement

The End of Period Statement is a detailed summary of the operations of the project from a financial and production perspective, and must be signed by the controller (or an equivalent officer) of the operator of the project. Under *section 29* of the *Regulation,* the project must submit its End of Period Statement within three months of the end of each period. Normally a period will end December 31, therefore requiring that an End of Period Statement be submitted by March 31 of the following year. Failure to provide the Department with an End of Period Statement within this time period may result in penalties being levied (see section 5.6).

The Department will not accept amendments to End of Period Statements that are received after the filing deadline. If new financial information becomes available for a period for which End of Period Statements have already been filed, the operator should contact the Department immediately to discuss any potential royalty adjustments. The adjustment is to be reported on the next End of Period Statement to be submitted.

The End of Period Statement contains the following schedules:

Auditor's Letter (Form PST-1) — This is required only if the project has crude bitumen sales averaging greater than 10,000 barrels per day (1,590 m^3/day) during the period. The auditor must be an independent firm engaged to perform the audit. If crude bitumen sales are less than the 10,000 barrels per day (1,590 m^3/day) average, then statements prepared by management will be accepted. In either case, the statements will be subject to an audit performed under the direction of the Crown.

Royalty Payable (Form PST-2) — This schedule identifies the greater of 1% gross revenue royalty or 25% net revenue royalty. The total royalty payable for the period is reconciled to the total royalty actually paid by the operator. Any difference must be paid or refunded within four months of the end of the period.

Royalty Calculations (Form PST-3) — This schedule calculates the greater of 1% gross revenue royalty or 25% net revenue royalty, identifying the calculation components. The calculation components are derived from subsequent schedules in the End of Period Statement. If gross revenue royalty exceeds the net revenue royalty, the excess is carried forward as an allowed cost of the next period.

Allowed Costs (Form PST-4) — This schedule provides a summary of the allowed costs incurred by the project. The allowed costs must broken down into subsidiary categories. Mandatory categories are return allowance on previous period's net loss, the net loss carried forward, the excess gross revenue royalty paid in the previous period, diluent, and other costs (excluding cost of diluent). A supplementary page (Form PST-4 supp-a) outlining costs per month and by category (using categories chosen by the operator) is required. If crude bitumen sales in a project are greater than the 10,000 barrels per day (1,590 m^3/day) average, the supplementary detailed list of costs does not need to be audited by the independent auditor.

Other Net Proceeds (Form PST-5) — This schedule identifies the other net proceeds generated by the project. The categories provided are for sample purposes only. Please see section 3.0 (Allowed costs and Revenues), as well as *section 22* of the *Regulation* to determine possible other net proceeds. For the purposes of a post-payout period, the amount of other net proceeds that can be used to reduce allowed costs cannot exceed the total amount of allowed costs. Any excess other net proceeds over the allowed costs is carried over for use as a deduction against the allowed costs of the next period.

Return Allowance (Form PST-6) — This schedule provides the calculation for the ***period* return allowance**. The period's return allowance (equal to the average of the LTBR published on the last Wednesday of each month for the period (see *section 125.1* of the *Act*)) is provided only when the project has a net loss at the end of a period. If the project begins the period in a net loss position and ends in a net loss position, the full period return allowance is provided on the period's net loss (i.e., the product of the net loss and average LTBR).

If the project begins the period in a positive net revenue position but ends in a net loss position, then a partial period return allowance is provided on the period's net loss. In this case, the return allowance is calculated using 183/365 multiplied by the LTBR multiplied by the net loss.

If the project is in a positive net revenue position at the end of the period, no period return allowance is allowed, regardless of the beginning or intervening months' net revenue positions. The LTBR is published by the Bank of Canada each Wednesday and can be accessed through the Bank of Canada's website on the Internet (http://www.bank-banque-canada.ca/pdf/wfs.pdf).

Revenue (Form PST-7) — This schedule provides a summary of the total revenue generated for each month of the period. Project revenue less the cost of diluent determines the gross revenue of the project. The details for each of this schedule's numbers are located on the revenue detail schedules (Forms PST-7a – PST-7d, as required).

Revenue Detail (Forms PST-7a – PST-7d) — These schedules provide the details that otherwise would have to be provided on the revenue and royalty schedules. Each leased oil sands product sold by the project operator requires an individual revenue detail schedule since each is anticipated to have a different unit price. The projects need only to submit revenue detail schedules for products the project has sold. Sales volume and sales revenue must be identified, as well as any handling charges, in order to calculate the unit price for the product. If the product contains diluent, the cost of diluent contained in the contribution to project revenue is subtracted to determine the contribution to gross revenue.

Carry Forward Amounts (Form PST-8) — This schedule identifies the four carry forward amounts that may be available for the next period(s). These amounts are net loss during period, period return allowance for current period's net loss, excess of gross revenue royalty over net revenue royalty, and excess of other net proceeds over total allowed costs. The first three are allowed costs in the subsequent period, whereas the fourth falls under other net proceeds in the subsequent period.

(see Appendix 7)

5.5 Operator's Forecast Report

5.5.1 General

The Operator's Forecast Report is required under *section 27* of the *Regulation*, and will be used for the purpose of estimating oil sands royalty revenues accruing to the Crown for the current fiscal year and the following three fiscal years.

Under *section 27* of the *Regulation*, the operator must provide the Minister with a report that contains the operator's forecast of information (specified below) with respect to the project by no later than December 15 of each year.

This report must be submitted for projects in both pre-payout periods and post-payout periods.

The operator's forecast is required for the current calendar year plus the next four calendar years (four calendar years are required to determine royalties for three government fiscal years).

The operator is encouraged to include any written explanations or clarifications in this report that will aid in the interpretation of the forecast.

(See Appendix 8)

5.5.2 Information on the Operator's Forecast Report

1. Units
    - All monetary values are to be reported in current year Canadian dollars.
    - Volumes are reported in cubic metres (m3).

2. Current Year
   - For projects with an effective date prior to October 31 of the current calendar year, the current year information will combine actual information from the effective date up to October 31 of the current calendar year, together with forecasted information from November 1 to December 31 of the current calendar year.
   - For projects with an effective date between October 31 and December 31 of the current calendar year, the current year information will include forecasted information from the effective date to December 31 of the current calendar year.
   - In the case of **quality differentials** and handling charges, where actual values in the current year may be unknown to the operator, estimates will be accepted.
3. Net Cumulative Balance
   - For a project with an effective date prior to the beginning of the current calendar year:
     - for which the project payout date had not occurred by December 31 of the year prior to the current calendar year, use the net cumulative balance appearing on the previous year's end of period statement; and
     - for which the project payout date had occurred by December 31 of the year prior to the current calendar year, the net cumulative balance is, if applicable, the net loss carried forward from the period prior to January 1 of the current calendar year.
   - For projects with an effective date within the current calendar year, the net cumulative balance is the prior net cumulative balance.
4. Sales Volumes
   - Sales volumes are required for each of the unique and primary oil sands product streams, which may include streams such as crude bitumen, blended bitumen, synthetic crude oil, and partially upgraded bitumen. Oil sands by-products such as sulphur, coke, etc., are excluded. (Revenue from these by-products is recorded under other product revenues).
   - Products of reasonably similar quality may be combined into one product stream (i.e., synthetic crude oil and partially upgraded bitumen would not be considered similar quality).
   - If blended bitumen is sold, then the volume reported is the blended volume (not the crude bitumen volume), and this must be noted on the report.
   - To provide the Department with an understanding of the product quality, the operator must provide an estimate of the average or range of API gravity and percentage of sulphur content for each of the product streams included in this report.
   - If the operator sells a significant portion (greater than 20%) of its sales volumes at a fixed price under a long-term contract (longer than 6 months), this portion should be reported in terms of revenues instead of sales volumes.
5. Quality Differential
   - A forecasted quality differential is required for each of the product streams reported in #4, Sales Volumes.

- The quality differential is a ($/m3) quality adjustment between the unit price of the oil sands product and an appropriate benchmark crude oil price. Either of the Edmonton Light Par or Hardisty Heavy postings is considered an appropriate benchmark price for this purpose.
- The benchmark crude price used must also be reported.
- As above with #4, Sales Volumes, products of reasonably similar quality may be combined into one product stream, where the quality differential is a weighted average quality differential (weighted by the expected sales volumes for each product).

6. Handling Charges
   - Handling charges must be reported for each of the product streams reported in #4, Sales Volumes.
   - Handling charges include $/m3 transportation and terminal charges from the royalty calculation point to either the point of sale or to an Alberta export terminus (i.e., Edmonton, Hardisty, Lloydminster), whichever is closest to the project.
   - The point of sale or relevant export terminus must also be reported.
   - The transportation costs should be broken down into pipeline and trucking costs.
7. Other Product Revenues
   - Other product revenues include the operator's forecast of revenues from oil sands by-products such as sulphur, coke, etc. (excluding the primary oil sands products for which volumes have been reported in #4, Sales Volumes).
   - Note that other product revenues and other net proceeds are mutually exclusive.
8. Natural Gas Volumes Used
   - Projects using natural gas must report these volumes, unless the natural gas volumes are purchased under a long-term contract at a set price. In this case, it is not necessary to report natural gas volumes; the natural gas costs will be captured under allowed costs in #10, Allowed Costs.
   - For projects reporting natural gas volumes, operating costs must exclude natural gas costs. Otherwise, natural gas costs must be included in operating costs.
9. Diluent Volumes Used
   - If blended bitumen is reported in #4, Sales Volumes, then the volumes of diluent used in blending the bitumen must be reported.
10. Allowed Costs
    - Forecasts of both capital costs and operating costs are required.
    - Capital costs must be broken down into sustaining and strategic.
    - For the purposes of this report, **strategic capital** is generally defined as capital expenditures that are required to expand production capacity above the previous year's level. **Sustaining capital** would be all remaining capital expenditures.

- As an alternative to splitting capital into sustaining and strategic categories, the total capital expenditures can be broken down by major capital projects, phases of expansions, etc.
- The Department appreciates that capital spending forecasts for the next four years are the best estimates at the time the forecast is required, and can vary significantly throughout the following years. Operators will be required to notify the Department during the course of the year if they become aware of any significant changes (+/– 20%) to their original forecast. This notification applies to other sections of the forecast as well.
- Operating costs shall exclude cost of diluent and natural gas costs. However, if natural gas volumes are not reported under #5, Quality Differential (for example, if the project purchases natural gas under a long-term contract basis), they must be included in operating costs.

11. Other Net Proceeds
    - Other net proceeds include custom processing revenues, co-generation revenues, etc., as defined under *section 22* of the *Regulation.*
12. Forecast of the Project Payout Date
    - A forecast of the project payout date is required for those projects that have not yet reached the project payout date.
13. Forecasts should be submitted to the Business Unit Leader, Oil Sands Development Business Unit, Alberta Department of Resource Development (see Appendix 9 for address and contact name).

5.6 Penalties and Interest

5.6.1 Penalties

Section 32 of the *Regulation* establishes the penalties that may be charged to the project operator for failing to provide the reports required by *sections 27, 28,* and *29* of the *Regulation.* The format and contents of the reports are described in the preceding sections of these Guidelines.

A $1,000 penalty may be imposed for each month or partial month the report is late. Similarly, a $1,000 penalty may be imposed if the project is required to (but does not) provide an externally audited End of Period Statement, in the case of projects that have crude bitumen sales averaging greater than 10,000 barrels per day (1,590 m^3/day) during the period.

If based on an audit conducted on behalf of the Crown, the auditor determines that a royalty underpayment has occurred due to improper application of the *Regulation*, such as improper record keeping or lax reporting procedures, the Minister may issue a notice describing the deficiency and requiring its correction. If the same deficiency arises in a subsequent period, the Minister may impose on the project operator a penalty of 10% of the resulting royalty deficiency for the second instance, and a penalty of 50% of the royalty deficiency for any subsequent instances. However, no penalty in respect of these deficiencies can be levied if the penalty amount is less than $1,000.

Penalties must be paid within 30 days of the Minister providing notice of the penalty to the project operator. The Minister may decide not to issue a penalty if he is of the opinion that exceptional circumstances, beyond the control of the project operator, warrant such a waiver.

5.6.2 Interest

Section 33 of the *Regulation* establishes the interest that may be charged to the project operator for failing to remit the royalty or other payments to the Crown by the dates prescribed by the *Regulation*. Interest is calculated from the day following the due date until the day the amount is paid to the Crown.

The Crown may charge interest to the project operator on the following types of late payments:

- monthly royalty payment (interest calculated from the day following the last day of the month following the production month;
- royalty underpayment in respect of any month (interest calculated on the outstanding amount from the day following the last day of the month following the production month);
- royalty underpayment identified in an End of Period Statement (interest calculated from the day following the end of the fourth month following the end of a period);
- royalty due as a result of a recalculation during an audit conducted on behalf of the Crown (interest calculated from the date the royalty was initially due);
- penalties; and
- outstanding interest.

The Crown will pay interest to a project operator on the following balances:

- in respect of a post-payout project, if the royalty paid to date exceeds the GFE's estimated royalty payable for the period, then the excess royalty paid by the operator must be repaid by the Crown before the last day of the month following the month in which the GFE was provided. Otherwise, interest is payable from the day following the last day of the period;
- any royalty overpayment identified in the End of Period Statement and not repaid by the Crown by the last day of the fourth month following the end of the period; and
- in respect of any royalty overpayment as a result of a Crown audit recalculation, interest is calculated from the day after the last day of the fourth month following the end of the period.

The rate of interest is the yearly rate that is 1% greater than the rate of interest established by the Province of Alberta Treasury Branches as its prime lending rate on loans payable in Canadian dollars, and in effect on the first day of the month in which that day occurs.

6.0 ADVANCE RULING PROCESS

An advance ruling is a statement by the Department on how it will interpret the applicable Act, regulations, policies and guidelines with respect to specific, proposed business arrangements. The Department will act in accordance with the advance ruling unless circumstances arise that are described in section 6.1.3 (Ruling Ceasing to Have Effect).

The Department will issue an advance ruling only for proposed transactions that are being seriously considered by the project owner.

The issuance of an advance ruling is based on full and complete disclosure of all facts, authorities and other matters relevant to the matter involved. Failure to meet these standards will invalidate the ruling.

6.1 Request for Ruling

A request for an advance ruling is to be submitted in writing to the Business Unit Leader, Oil Sands Development Business Unit, Alberta Department of Resource Development (see Appendix 9 for address and contact name). The request must be identified as a "Request for Advance Ruling" and signed by an authorised representative of the party seeking the ruling. (See also section 4.2.1 on the departmental process for pre-approvals of R&D costs).

6.1.1 Statement of Issue

The request should clearly state the issues on which a ruling is required and the purpose of the contemplated arrangement. As a minimum, the request should provide the following:

- a comprehensive analysis of the effect of each of the relevant facts;
- detailed references to the relevant provisions of the enactments of authority having a bearing on the issues involved; and
- the project operator's interpretation of those enactments and the authorities that form the basis of that interpretation.

6.1.2 Process

After initial review of the material provided, the Department may call for additional information or clarification of material provided by the project operator. Requests will generally be handled in the order in which they are received.

The Department intends to provide a response in 45 days; however, this may be extended if it is estimated that a longer time is required to issue an advance ruling. A request for an advance ruling may be withdrawn at any time before the ruling is issued.

6.1.3 Ruling Ceasing to Have Effect

The Department may retroactively revoke an advance ruling in the following circumstances:

- where material has been misrepresented or omitted in the statement of facts or purpose, or any other misrepresentation has been made to the Department with respect to the proposed arrangements;
- where there has been material non-compliance between the proposed business arrangements, for which the advance ruling was sought, and what actually transpired;

- where the law upon which the ruling was based on changes, the ruling will cease to be effective as of the date of the change in law; and
- where government policy changes, the ruling will cease to be effective as of the date the project operator is so notified.

7.0 DISPUTE PROCESS

The Department has a **dispute process** to resolve royalty disputes where there is a disagreement between the project operator and the Department on a royalty assessment due to differences of interpretation regarding the calculation or recalculation of royalty under the *Regulation*. A royalty dispute may be resolved at the operational level, or if not, through the Department **appeal process**, and if not there, by the Dispute Resolution Committee. An overview of the process is provided in Figure 5.

7.1 Matters Eligible for the Dispute Process

The legislation governing disputes of royalty and royalty proceeds under the *Regulation* is *sections 39* and *39.01* of the *Act*.

Under the *Regulation*, royalty and royalty proceeds are tied to project revenues, other net proceeds, allowed costs and components of these items. Any matters left to the discretion of the Minister, whether in relation to these items and components or otherwise, do not fall under *sections 39* or *39.01* of the *Act* and therefore are not subject to the dispute process.

7.2 Royalty Assessment

Under *section 39* of the *Act*, the operations area in the Oil Development Division, and compliance and assurance (audit) areas in the Forestry and Mineral Development Division of the Department make an assessment of royalty or royalty proceeds, or issue an audit report. *Section 39* of the *Act* provides for the Department to recalculate royalty within four years after the end of the calendar year in which the royalty assessment was issued. If the audit is initiated in the fourth year, the Department has one additional year to complete the audit. The project operator may dispute a royalty assessment and request a recalculation of royalty within the four-year period specified in *section 39* of the *Act*, or in the fifth year if the audit period is extended by the Department.

If a royalty dispute is not resolved at the operational level in the Department, the project operator may file an appeal.

7.3 Appeal Royalty Assessment

The project operator may appeal a royalty assessment decision made by the operations areas of the Department when there is a disagreement between a project operator and the Department with respect to compliance with the *Regulation* or the Guidelines.

Under *section 39.01* of the *Act*, the project operator may request a recalculation of the assessment, or the Department may initiate a recalculation of the assessment within the time specified in section 7.3.1. If a recalculation is made under *section 39.01* of the *Act*, the Department may also make recalculations or additional calculations of interest payable and related penalties.

The Director, Dispute Resolution, investigates the royalty dispute, obtains input from Department staff and the project operator, mediates issues between the Department and the project operator, and proposes a resolution. If the Department and the project operator accept the resolution, it is implemented. If the resolution is not accepted, the project operator may then proceed to the Dispute Resolution Committee. The appeals process for oil sands requires the project operator to follow this process before proceeding to the Dispute Committee.

7.3.1 Request for Appeal

Where a project operator is unsuccessful in resolving a dispute with operational staff of the Department, the project operator may submit a written Notice of Appeal to the Director, Dispute Resolution, Legal Services Business Unit, Alberta Department of Resource Development (see Appendix 9 for address and contact name), setting out the reasons for the appeal and all relevant facts. A Notice of Appeal must be received no more than 90 days after the project operator has received a royalty assessment decision or audit report from the Department's operational staff. The Notice of Appeal must be clearly identified as such and be signed by an authorised representative of the project operator.

As a minimum, the Notice of Appeal must include the following information:

- the decision being appealed, and how, when and by whom it was originally communicated (e.g., an audit report);
- a description of the attempts made by the project operator to resolve the dispute with the Department's operational staff;
- the reasons for the appeal; and
- evidence in support of the appeal, including payment of the disputed amounts, which should include an analysis of the effect of each of the relevant facts for the issues involved, detailed reference to pertinent legislation, regulations or authorities, and the project operator's interpretation of such legislation, regulation or authorities.

7.3.2 Appeal Process

The Notice of Appeal will be acknowledged in writing. The Director, Dispute Resolution, will contact the project operator, usually within 30 days, to advise if additional information is required, and the appeal will be accepted for resolution provided that:

- the dispute relates to a royalty matter within the time limitations as provided under *section 39* of the *Act*,
- all information is provided in accordance with 7.3.1, and
- the appeal is received within the 90 day period as required under 7.3.1.

The investigation will involve consultation with both the project operator and the Department's operational staff.

The Director, Dispute Resolution, considers the royalty dispute, mediates discussions between the Department and the project operator, and recommends a resolution of the dispute. If the resolution is acceptable, the Department and the project operator must agree to it in writing. Within 180 days of the Request for Appeal being filed, the Director, Dispute Resolution, will issue a Statement of Resolution confirming the agreement.

If there is no agreement within this 180-day period, the Director, Dispute Resolution, issues a Statement of No Resolution. However, the Director, Dispute Resolution, can consent to extend the 180 days by a further 90 days if the Department and the project operator agree.

Where no resolution is forthcoming, the dispute may be referred to the Dispute Resolution Committee.

7.4 Dispute Resolution Committee

If the dispute is not resolved at the appeals process level, the Director, Dispute Resolution, can, at the request of the project operator, call the Dispute Resolution Committee to hear the dispute and act as the Secretariat to the Dispute Resolution Committee to provide administrative assistance.

A Dispute Resolution Committee is established by Ministerial Order pursuant to *section 35* of the *Regulation*. Committee members will be appointed for each hearing, and may comprise members appointed by the Minister from Department and industry nominees who will hear disputes respecting royalty assessments. However, the Committee members cannot be Department employees or an employee of the project operator or affiliated company. The Committee will provide the Minister with a recommendation for resolving the dispute.

7.4.1 Request for Dispute Resolution Committee Royalty Dispute Hearing

A written request by a project operator to the Dispute Resolution Committee to review a dispute must be received by the Department within 90 days of the Director, Dispute Resolution, issuing a Statement of No Resolution. The request is to be forwarded to the Director, Dispute Resolution, Legal Services Business Unit, Alberta Department of Resource Development (see Appendix 9 for address and contact name), and identified as "Requests for Dispute Resolution Committee Review". An authorised representative of the company must sign the request.

Within 90 days after receiving the request from the project operator the Department will ask the Minister to appoint a Dispute Resolution Committee to review the dispute.

As a minimum, the request for a hearing must include the following information:

- the decision being heard, and how, when and by whom it was originally communicated (e.g., an audit report);
- a description of the attempts made by the project operator to resolve the dispute with the Department's operational staff;
- the reasons for the hearing; and
- evidence in support of the hearing, which should include an analysis of the effect of each of the relevant facts for the issues involved, detailed reference to pertinent legislation, regulations or authorities and the project operator's interpretation of such legislation, regulation or authorities.

7.4.2 Selection of a Committee

The Committee appointed to review the dispute will be generally comprised of three members. A single member is allowed where, for example, the Department and the project operator agree this is acceptable.

Within 30 days of filing the Request for the Dispute Resolution hearing, the project operator and the Department must each provide at least three names of mutually agreeable possible committee members to the Director, Dispute Resolution. Before submitting these names, each person named must have been contacted by the Department or project operator and have agreed to be a member of the Committee if requested to do so. In addition, the Department and the project operator should mutually agree on a preferred number of committee members for the hearing and communicate that information to the Director, Dispute Resolution.

The Director, Dispute Resolution, will take those names, plus any other names that have been subsequently approved by the Department and the project operator, and provide them to the Minister with recommendations on the size of the committee and membership.

In appointing members to the Committee, the following will be taken into account:

- the member(s) must be a candidate agreed on by both the Department and the project operator;
- the member(s) must be neutral on the issue; any conflict of interest or bias in relation to a particular dispute must be disclosed;
- the member(s) may be required to take an oath of confidentiality,
- the member(s) cannot be a Department employee or an employee of the project operator or affiliated company; and
- the member(s) may have particular experience or expertise applicable to the dispute.

Costs associated with or incurred by the Committee, which may include an honorarium to Committee members, will be shared 50% by the project operator and 50% by the Department.

7.4.3 Functions of the Committee

The following are the primary functions of the Committee:

(a) The Committee ensures there is a clear understanding of the matters in dispute (e.g., an agreement statement of facts) and any documents necessary to the hearing.

(b) The Committee can establish and clarify the procedure to be followed in the hearing.

(c) The Committee can establish the means of communication to be used between the parties.

(d) The Committee may make rules governing the calling of and conduct of its business.

(e) The Committee will make a recommendation to the Minister with respect to a dispute.

7.4.4 Recommendation of the Committee

The Committee will be required to render a written recommendation to the Minister within 120 days of being formed. The 120-day limit may be extended by mutual agreement of the project operator and the Department.

In formulating its recommendation, the Committee will consult with and review material presented by the project operator, the Department, or expert witnesses as required. A person having special skills or knowledge in the area of a dispute may provide the Committee with assistance in answering specific questions, such as in areas of accounting or audits. The Director, Dispute Resolution, can co-ordinate the selection of witnesses in consultation with the Department and the project operator. The Committee will provide reasons for its recommendations.

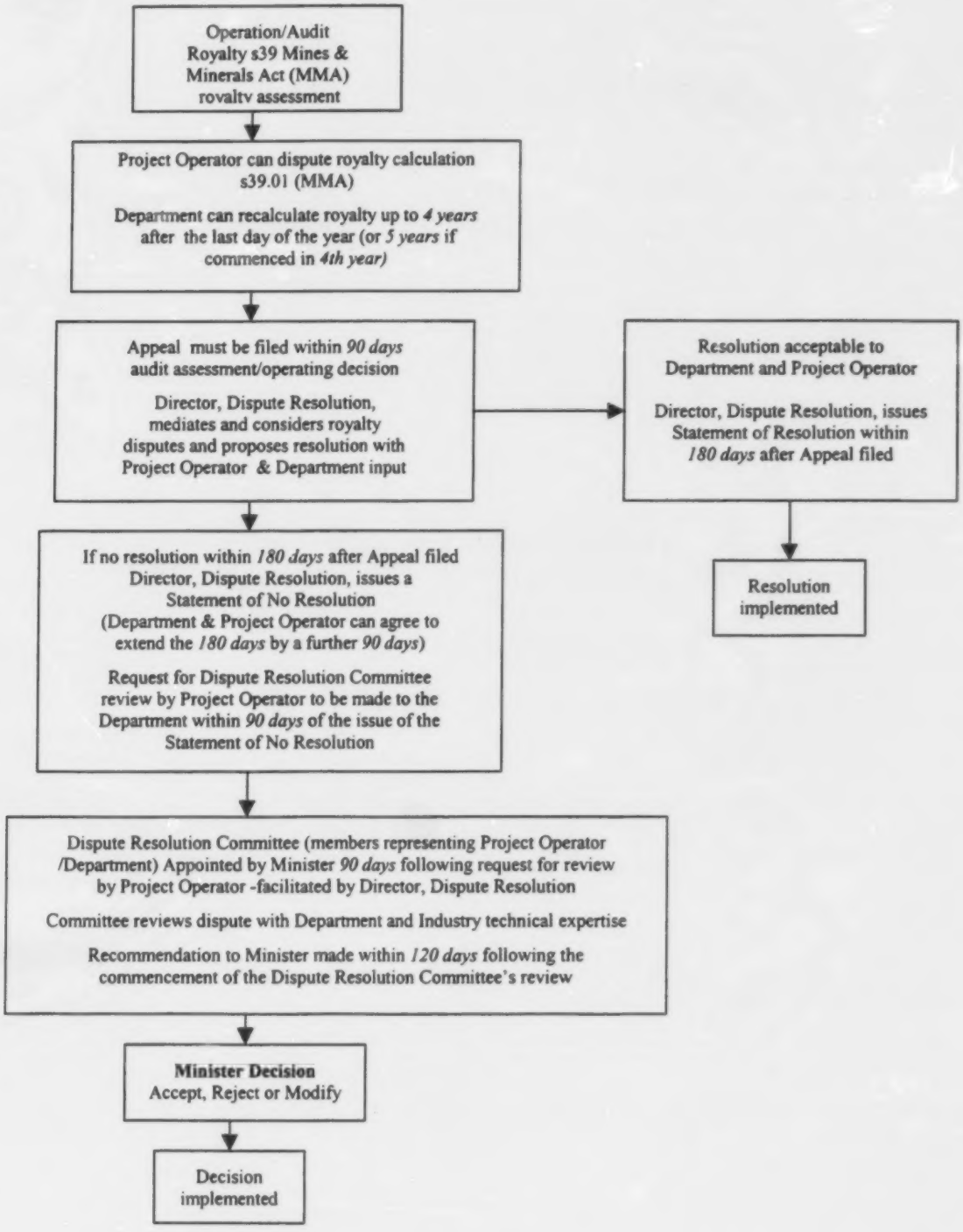
7.4.5 Notification and Publication

Acting on behalf of the Committee, the Director, Dispute Resolution, will notify the Department and the project operator of the Minister's decision and will arrange for the Department to implement that decision.

Decisions from a Dispute Resolution Committee recommendation will be published to the extent that the matter in dispute interprets the *Regulation* or a Guideline. Such publication will not include information specific to the project, the project owners or project operators involved in the dispute.

Substantive changes to the Guidelines that are made as a result of the decision will be done in consultation with the stakeholders. The decision will have a retroactive effect for the dispute, as well as for any other dispute that raises the same issue and which arises for consideration within the time limitation in *section 39* of the *Act*.

Figure 5. Oil Sands Royalty Regulation, Dispute Process


Operation/Audit
Royalty s39 Mines & Minerals Act (MMA) rovaltv assessment
Project Operator can dispute royalty calculation s39.01 (MMA)
Department can recalculate royalty up to 4 years after the last day of the year (or 5 years if commenced in 4th year)
Appeal must be filed within 90 days audit assessment/operating decision
Director, Dispute Resolution, mediates and considers royalty disputes and proposes resolution with Project Operator & Department input
Resolution acceptable to Department and Project Operator
Director, Dispute Resolution, issues Statement of Resolution within 180 days after Appeal filed
Resolution implemented
If no resolution within 180 days after Appeal filed Director, Dispute Resolution, issues a Statement of No Resolution (Department & Project Operator can agree to extend the 180 days by a further 90 days)
Request for Dispute Resolution Committee review by Project Operator to be made to the Department within 90 days of the issue of the Statement of No Resolution
Dispute Resolution Committee (members representing Project Operator /Department) Appointed by Minister 90 days following request for review by Project Operator -facilitated by Director, Dispute Resolution
Committee reviews dispute with Department and Industry technical expertise
Recommendation to Minister made within 120 days following the commencement of the Dispute Resolution Committee's review
Minister Decision
Accept, Reject or Modify
Decision implemented

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APPENDIX 1. GLOSSARY

The following terms are defined in the context of the *Oil Sands Royalty Regulation, 1997* (consolidated to *AR 52/2000*) and the *Oil Sands Royalty Guidelines* of which they are a part.

A word or term that is shown in bold and italics indicates a definition taken from the *Regulation*. A word or term that is shown in bold indicates a working definition applicable to the *Oil Sands Royalty Guidelines*.

Act means the *Mines and Minerals Act (MMA)*.

actual financial transaction is one that is actually incurred and supported by documentation, and has specific practical application to the project.

advance ruling is a statement by the Department as to how it will interpret the applicable laws, policies and guidelines with respect to certain proposed business arrangements.

Alberta Energy and Utilities Board (Board) is an independent tribunal created under the *Alberta Energy and Utilities Act*. Part of the Board's mandate is to ensure that Alberta's energy resources are exploited with due consideration to sound technical and conservation principles. The Board is responsible for approving oil sands operations and/or schemes.

allowed cost means a cost described in *Schedule 1* and *Schedule 2* of the *Regulation*, and outlined in section 3.0 of the Guidelines.

amalgamated *project* means the project that arises from the amalgamation of two or more projects pursuant to an amendment approved under *section 16(1)* of the *Regulation*.

amalgamation occurs when one or more projects approved under *section 16* of the *Regulation* are combined (see *section 37[1][a]* of the *Regulation*).

amendment *period* means the period of a project during which the effective date of an amendment to the project occurs that amalgamates it with one or more other projects to form an amalgamated project.

amount charged to the project means, in relation to a capital asset, good or service, the lesser of:

i. The price that a project owner or operator charges to other project owners in relation to a capital asset, good or service;

ii. The amount charged to a project owner, operator or affiliate of either, by the person who provided the capital asset, good or service to the project owner, operator, or affiliate;

iii. The amount reported by the project owner or operator to the Crown in relation to the capital asset, good or service as an:

   a. allowed cost in relation to the capital asset, good or service, or

   b. amount deducted in relation to the capital asset, good, or service in the calculation or the unit price of an oil sands project.

appeal process is included in the dispute process established by the Department to address royalty disputes between project operators and the Department.

basic service means any service provided from a non-arm's length capital asset that is required pursuant to a project to recover or obtain oil sands products or clean crude bitumen from oil sands products, whether obtaining the cleaned crude bitumen occurs pursuant to the project or otherwise.

blended bitumen means cleaned crude bitumen blended with diluent, and suitable for transport by pipeline.

Board means the Alberta Energy and Utilities Board.

cleaned crude bitumen means crude bitumen from which impurities have been removed sufficiently to allow it, when blended with diluent, to be transported by pipeline.

co-generation is the combined production of electricity and useful heat or mechanical energy from a single fuel source.

concept audit is an advance review by the Department to determine whether the R&D project will be "directly attributable" to the project.

cost of diluent means (in respect of diluent blended with cleaned crude bitumen obtained pursuant to a project to form the blended bitumen that is delivered during a month at a royalty calculation point for the cleaned crude bitumen) the cost determined in accordance with the following formula:

Cost = V x WAC

where V is the total volume of the diluent. WAC is the weighted average cost per unit volume of that diluent calculated in accordance with the Minister's directions.

Crown means the Crown in Right of Alberta.

Crown's share means:

i. in respect of a project the development area of which includes oil sands rights vested in the Crown and oil sands rights vested in a person other than the Crown, the proportion of the project substances that is allocated under a unit agreement to the tracts in the development area in which oil sands rights are vested in the Crown; and

ii. in respect of any other project, 100%.

crude bitumen means despite *section 1(1)(d)* of the *Act*, a viscous mixture, mainly of hydrocarbons heavier than pentanes, that may contain sulphur compounds and that is obtained from oil sands.

cumulative cost means the aggregate of :

i. the prior net cumulative balance of the project;

ii. the Crown's share of:

(a) allowed costs of the project other than allowed costs described in *section 4* of *Schedule 1* or *2* of the *Regulation*, as the case may be, and

(b) allowed costs of the project described in *section 4(c)* of *Schedule 1* or *2* of the *Regulation*, as the case may be; and

iii. the proceeds paid to the Crown on project substances in respect of royalty reserved under *section 125.1(2)* of the *Act*.

cumulative revenue means the aggregate of the Crown's share of:

i. the project revenue of the project from and after the effective date; and

ii. other net proceeds received or receivable in respect of the project from and after the effective date.

Department means the Alberta Department of Resource Development.

development area means the area and strata described under *section 17(1)(b)(i)* of the *Regulation* in respect of a project, and includes, from and after the effective date of a project expansion relating to the project, any area and strata added by virtue of the project expansion to the area and strata so described.

diluent means hydrocarbon substances used to dilute crude bitumen for the purpose of transport from a royalty calculation point for crude bitumen.

dispute process is the process established by the Department to resolve royalty disputes. (See section 7.0 of the Guideline).

effective date means:

i. in respect of a project, the effective date specified in the project approval; and
ii. in respect of an amendment of a project and any project expansion, the effective date specified in the project approval amendment.

End of Period Statement is a detailed summary of the operations of the project from a financial and production perspective, and must be signed by the controller (or an equivalent officer) of the operator of the project.

fair market value is the value determined by the Minister on the basis of transactions occurring in comparable open markets among persons who are not affiliated (*section 9* of the *Regulation*). (See section 3.0 of the Guidelines).

first amalgamated period commences on the first day of the amendment period for the amalgamated *Project*, and ends on the earlier of either:

i. December 31st of the calendar year during which the effective date of the amendment occurs; or
ii. the date on which the approval for the amalgamated project is revoked.

good faith estimate (GFE) provides financial detail and royalty payable for each month during a post-payout period — actual figures for past months and estimated figures for future months.

gross revenue means the project revenue of a project minus the cost of diluent contained in any blended bitumen included in the calculation of that project revenue.

handling charges include $/m^3$ transportation and terminal charges from the royalty calculation point to either the point of sale or to an Alberta export terminus (i.e., Edmonton, Hardisty, Lloydminster), whichever is closest to the project.

hedges are transactions dealing with financial derivative-type instruments such as futures contracts or swap arrangements.

industry means the oil sands industry.

long-term bond rate (LTBR) is the return allowance rate specified in *section 125.1* of the *Act*, and is applied to the net cumulative balance or net loss of the project. (Refer to Allowed Costs in section 3.0, and Reporting in section 5.0. and *section 125.1* of the *Act*).

month means the period commencing at 8:00 a.m. on the first day of that month and ending before 8:00 a.m. on the first day of the next month.

monthly return allowance is provided on the net cumulative balance for the project using the monthly equivalent of the simple average of that month's long-term bond rate (LTBR) (i.e., monthly rate = $[1 + LTBR]^{1/12} - 1$). (See Reporting in section 4.0 of these Guidelines and *section 125.1* of the *Act*).

net book value is the historical cost less the accumulated depreciation. (See section 3.0 of the Guidelines).

net cumulative balance is the amount by which the cumulative costs exceed cumulative revenue.

net loss means the amount by which the allowed costs of a project for a period exceed the aggregate of the project revenue and other net proceeds of the project for the period.

net revenue means the amount by which the project revenue of a project for a period exceeds the amount by which the allowed costs of the project for the period exceed the other net proceeds of the project for the period.

non-basic pipeline means any pipeline that transports a project's output after the royalty calculation point. Non-basic pipelines do not provide a basic service.

oil sands product means crude bitumen, cleaned crude bitumen, synthetic crude oil or any other product obtained from oil sands by processing, reprocessing or otherwise.

opening balance — see ***prior net cumulative balance***.

operator means the person specified under *section 16(2)(a)(v)* of the *Regulation* as being the initial operator of a project, or any person subsequently identified by the Minister as being the operator of the project.

other net proceeds of a project for a period means the amount described in *section 22(1)* of the *Regulation* and in section 3.0 of the Guidelines.

participating interest means the proportion of ownership in the whole of a project that is held by a project owner.

period means each calendar year or partial calendar year that occurs between the effective date of a project and the date the approval of the project is revoked. However, where the project payout date occurs during the calendar year or partial calendar year, the portion of the calendar year or partial calendar year ending on the day before the project payout date and the portion of the calendar year or partial calendar year commencing on the project payout date shall each be considered separate periods.

period **return allowance** (equal to the average of the LTBR published on the last Wednesday of each month for the period) is provided when a post-payout project has a net loss at the end of a period. (See Reporting in section 5.0 for the calculation of period return allowance).

person includes a firm, trust, partnership, joint venture, association, government or government agency.

post-payout monthly report (good faith estimate) provides financial detail and royalty payable for each month during a post-payout period — actual figures for past months and estimated figures for future months.

post-payout period means each period commencing on or after the project payout date.

pre-payout monthly report means the report containing the information for the month for each oil sands product. (See section 5.0 of the Guidelines and the reporting forms in the Appendix).

pre-payout period means each period commencing before the project payout date.

prior net cumulative balance (see opening balance in section 3.0 of the Guidelines) means:

i. in relation to a project expansion, the amount as the prior net cumulative balance of the project expansion; and

ii. in relation to a project for which the project payout date has not occurred, the aggregate of the amount specified as the prior net cumulative balance of the project and any amounts specified as being the prior net cumulative balances of any project expansions included in the project.

processing plant means:

i. a facility for the extraction of crude bitumen or other oil sands product from oil sands;

ii. a facility in which crude bitumen is processed to obtain cleaned crude bitumen; and

iii. a facility for the extraction and upgrading to synthetic crude oil or any other oil sands product of crude bitumen, cleaned crude bitumen or blended bitumen,

that is approved, or deemed to be approved, under the *Oil Sands Conservation Act*.

production month means, in relation to any oil sands product, the month in which it is recovered or obtained.

project means a scheme or operation for the recovery within Alberta of crude bitumen or any other oil sands product from oil sands, whether or not in conjunction with the further processing of the crude bitumen or other oil sands product, where the scheme or operation is approved in one or more subsisting approvals under *section 16* of the *Regulation*.

project description means a description or amended description specified for a project under *section 16(2)(a)(i) or (2)(b)(i)* of the *Regulation*.

project expansion means an addition to a project that comes within the description of the project under *section 16(2)(b)(i)* of the *Regulation*, but does not include a project that is being amalgamated with another project.

project owner means:

i. a lessee of oil sands rights with respect to the whole or a part of the development area of a project; and

ii. a person who, according to the records at the Land Titles Office, has the right to recover oil sands from part of the development area of the project.

project payout date means:

i. the effective date of a project in the case of a project for which the prior net cumulative balance as of the day preceding the effective date is a negative amount; or

ii. the first day of the month during which the cumulative revenue of a project first equals the cumulative cost of the project, in the case of any other project.

project revenue means the aggregate of the products obtained by multiplying:

i. each quantity of

(a) blended bitumen that contains crude bitumen recovered pursuant to a project from the project's development area; and

(b) each oil sands product, other than crude bitumen referred to in paragraph (a), recovered pursuant to the project from the project's development area,

that is delivered at a royalty calculation point for the crude bitumen or other oil sands product, as the case may be, then disposed of, consumed or used, whether before or after being further processed, by

ii. the unit price applicable to the quantity.

project substances means oil sands and oil sands products recovered, whether before, on or after the effective date of a project, from the development area of the project.

provisional royalty assessment includes the operator's forecast of revenues from oil sands by-products such as sulphur, coke, etc. (excluding the primary oil sands products for which volumes have been reported in section 5.4 of the Guidelines).

Qualifying Joint Venture Project means a project specified under *section 16(2)(a)(iv)* of the *Regulation* as being a Qualifying Joint Venture Project. (See section 3.0 of the Guidelines).

quality differential is a ($/m^3) quality adjustment between the unit price of the oil sands product and an appropriate benchmark crude oil price. Either of the Edmonton Light Par or Hardisty Heavy posting is considered an appropriate benchmark price for this purpose.

realised revenue is the sum of all crude bitumen-based oil sands products less handling charges. The realised revenue plus revenue from other oil sands products determines the project revenue.

Regulation means the *Oil Sands Royalty Regulation, 1997* (as consolidated up to *AR 52/2000*).

return allowance — see **long-term bond rate**.

royalty calculation point means:

i. in respect of each oil sands product recovered from the development area of a project, the place determined under *section 23* of the *Regulation* at which the Crown's royalty share of the product is to be calculated; and

ii. in respect of each oil sands product recovered pursuant to a project from other than the development area of the project, the place determined under *section 23* of the *Regulation* at which the Crown's royalty share of the product would be calculated if the product were recovered from the development area of the project.

sales price is the calculated value of the sales revenue divided by the sales volume.

sales revenue is the total proceeds from the sale of each oil sands product.

sales volume is the actual volume sold of each oil sands product, including blended bitumen.

strategic capital is generally defined as capital expenditures that are required to expand production capacity above the previous year's level.

sustaining capital is all remaining capital expenditures.

synthetic crude oil means a mixture, mainly of pentanes and heavier hydrocarbons, that may contain sulphur compounds, that is obtained from crude bitumen and that is liquid at the conditions under which its volume is measured.

unit agreement is an agreement, entered into by lessees and lessors of land (mineral rights) within a defined area, to share the costs of producing and the revenue obtained.

unit price means, in relation to each kind of oil sands product obtained pursuant to a project and delivered at a royalty calculation point for that kind of product, including blended bitumen containing crude bitumen so

obtained and delivered, the price determined from time to time under *section 21* of the *Regulation*, calculated in accordance with the following formula:

$$\text{Unit price} = \frac{TC - HC}{TD}$$

Where TC is the total consideration. HC is all handling charges, export charges, pipeline tariff charges, processing charges, etc., to transport the oil sands product from the royalty calculation point to the place where the dispositions occur, and to process the oil sands product at any place between those two places. TD is the total quantity of the oil sands product so disposed of. (Refer to the Allowed Costs and Revenues in section 3.0 and Reporting in section 5.0).

APPENDIX 2. PROJECT APPLICATION

(S. 15) Lessees who have, or are pursuing, an oil sands project may apply for royalty treatment under the provisions of the *Regulation*.

Projects that do not make an application under the *Regulation*, and are not covered by an existing individual agreement or the *Experimental Oil Sands Royalty Regulation*, will be subject to conventional royalty rates under the *Petroleum Royalty Regulation*.

Royalty terms for oil sands project approved pursuant to the *Regulation* will be effective from the effective date specified in the oil sands royalty approval.

(S.16[3]) An oil sands royalty approval cannot specify an effective date that is earlier than any of the following:

(a) the first day of the month in which the application for approval of the project or amendment is received by the Department;

(b) the first day of the month following the month in which the proposed project or amendment is approved by the Board under the *Oil Sands Conservation Act*;

(c) the first day of the month that precedes by nine months the month in which the project or amendment is approved by the Minister.

An application must be complete in order to qualify its application date for consideration as an eligible effective date. An application that is deficient in any material way will be considered invalid for the purposes of *section 16(3)(a)* of the *Regulation*. The intent is to avoid situations such as an application submitted in correct form but without the necessary detail; a discussion with departmental staff; an initial letter; or something similar, being argued to be the application. It is unlikely that the Department can do any substantive assessment of the project and its costs and revenues based on an incomplete application, and therefore will not consider them to be proper applications.

An application for the *Regulation's* terms should not be submitted to the Department before the oil sands development application is submitted to the Board. Nonetheless, all lessees submitting an oil sands development application to the Board may apply simultaneously for royalty terms under the *Regulation*. However, as indicated previously, the application must be complete as of the date it is submitted. Once Board approval is received, the application can be supplemented with the Board approval and the financial activity that occurred in the intervening months between the Board application and the Board approval. Note that *section 16(3)(b)* of the *Regulation* does not allow the effective date for the project to be earlier than the Board approval, regardless when the application for oil sands royalty was submitted to the Department. The advance application simply provides an opportunity to address potential issues ahead of time and to reduce the amount of time required to approve the project once the Board approval is obtained. However, applications that are awaiting Board approval after 90 days following their submission will be considered expired and a new application will be required.

If a project applicant wishes to have an effective date that is later than the earliest date possible allowed by *section 16(3)* of the *Regulation*, then it should be noted in the application.

The *Regulation* limits the length of time between the effective date assigned for a project and the date that approval for the project is granted by the Minister. *Section 16(3)(c)* of the *Regulation*

limits this length of time to nine months. The intent is to encourage an expeditious exchange of information between the project applicant and departmental staff. Notwithstanding any unusual circumstances, and assuming the appropriate information is included in an application, the Department anticipates the project approval process to require less than 60 business days.

An application for project approval under the *Regulation* and its resulting royalty terms must contain the information outlined in the following application form. The form contains a variety of sections, all of which must be completed thoroughly. An explanation of what is required in each section is included. There is no limit on the amount of information that can be included under any one section. The last section requires a formal sign-off of the application and provides consent for the Department to audit the information contained in the application.

APPLICATION FOR ROYALTY TERMS OF THE OIL SANDS ROYALTY REGULATION, 1997 (AR 185/97)

PROJECT STATUS

☐ New Project ☐ Project Expansion ☐ Project Amalgamation ☐ Other (explain)

New Project - *an oil sands project that has not commenced production, or for which royalty currently is being calculated under the Petroleum Royalty Regulation.*

Project Expansion - *an existing approved oil sands royalty project that is adding lands or facilities, usually from a new or amended Board approval.*

Project Amalgamation - *two or more projects with existing approvals under the Regulation are being combined into one project for the purposes of the Regulation.*

Other - *any amendment that does not fit into the above three categories. Some examples may be a Department-sanctioned removal of lands or facilities from the project, a project name change, or the addition or deletion of terms and conditions of the original approval.*

PROJECT OWNERSHIP

(S. 15(2)) **Project Owner(s)**

Please identify each equity participant and their equity percentage.

(S. 16(1)) **Freehold Interests**

Projects wanting to include freehold land interests must enter into a unit agreement with the Crown before an oil sands royalty approval can be granted. Please include the unit agreement. Project applications that propose the inclusion of freehold lands, but do not have or submit a unit agreement, will be denied an oil sands royalty approval.

(S. 16(2)) **Qualified Joint Venture**

Please attach the Joint Venture Agreement.

PROJECT IDENTIFICATION

Project Name

Please propose a project name. The project name is included in the formal project approval, along with an oil sands royalty approval number, and is used to reference the project. Once established, the project name can be changed only by amending the project approval.

(S. 16(2)) **Project Operator**

If there is more than one owner, or if the operator is not also the sole owner, then please attach the operating agreement to validate the project applicant and/or initial operator who has the legal authority to represent the equity participants.

Project Contact Person

Please identify a primary contact person through which all project-related issues and correspondence can be directed. The operator is responsible for updating this information if the contact person or contact information changes.

PROJECT DESCRIPTION

(S. 17(1)) **Alberta Energy and Utilities Board Approvals**

Please attach the approvals, and a brief summary of each Board application approved, relating to an oil sands scheme or operation approved by the Board pursuant to the Oil Sands Conservation Act. Simply attaching the Board approvals/applications is insufficient. Any facilities that are included in the Board approval must be summarised in the Project Description section of the application. Related applications and approvals for separate facilities (central batteries, processing plants [cleaning and treating plants, upgraders], sand disposal facilities, pipelines, etc.) must also be included. If a facility is not clearly identified by the project applicant, it will not be included in the project approval (i.e., it will not be included in the project), and the facility's costs and revenues will be excluded from the prior net cumulative balance.

Only Board approvals and amendments preceding the effective date can be included in an oil sands royalty project approval. If Board amendments have already been granted that are subsequent to the proposed effective date, the project applicant must decide whether to request a later effective date or keep the earliest effective date and apply later to have the oil sands royalty project approval amended.

Specific terms or conditions of the Board approval should be highlighted for the Department's attention.

(S. 17(3)) **Project Description**

The project description is a fundamental part of the project approval. The Department requires detailed information to ensure that a proper description is contained in the formal project approval document. The scheme outline, area and strata to be produced and surface area to developed should be summarised, as well as any existing wells or separate (or off-lease) facilities not included in the Board approval. Facilities that are shared must be identified. A map showing the area, the project and facilities must be included. Any errors in the project description may result in costs being disallowed, royalty for the production being administered under the Petroleum Royalty Regulation, or lands and facilities being excluded. Specific information relating to the following must be provided.

Oil Sands Lease – the lease number and description for all leased land and resource development and production rights proposed for inclusion in the project must be included.

Deposits – *any deposits included in the oil sands lease but not included in the Board approval must be identified, as these are ineligible for inclusion in the project.*

Facilities – *all facilities proposed to be included in the project must be individually described (function, location, and facility ID or name if either exists), and reference the relevant Board approval or permit. Facilities include central batteries, processing plants (cleaning and treating plants, upgraders), sand disposal facilities and pipelines, but do not include wells or well pads.*

Wells – *all wells to be included in the project must be identified by their unique well identifier.*

PROJECT OVERVIEW

A brief summary of the project's development history and future plans and intentions must be provided. The following are examples of the type of information needed: land acquisition date, initial wells drilled, lands and facilities to be included, annual production to date. If the application requests an expansion, a brief description must be provided regarding the proposed expansion's relationship to the existing project. The application will not proceed unless this information is provided.

(S. 15(5))
(S. 18)

FINANCIAL STATUS

(Schedule 4) *The financial information requested will be reviewed by the Department to determine the prior net cumulative balance for the project as of its proposed effective date. The effective date will be determined under section 16(3) of the Regulation, unless the project applicant requests a later date. The prior net cumulative balance is intended to recognise costs and revenues during the three years preceding the effective date. This time period may be extended beyond three years if certain conditions are met. Section 18 of the Regulation provides a complete description of the eligible amounts that can be included in the prior net cumulative balance. The allowed cost section of the Oil Sands Royalty Guidelines provides some additional useful information regarding allowable costs.*

The financial details of the proposed project must be summarised using the following three forms: PNCB – Summary; PNCB – Cost Detail; and PNCB – Revenue Detail. The PNCB – Summary provides a summary of the previous three years' costs and revenues; however, additional previous years can be included subject to the criteria in section 18(1)(a)(i) of the Regulation.

The categories in PNCB – Summary and PNCB – Revenue Detail are mandatory. However, the PNCB – Cost Detail form cost categories are for illustrative purposes only and can be substituted with categories currently used by the project applicant. Any capital asset included on the PNCB – Cost Detail form should also have its corresponding AFE number provided on a separate sheet. A PNCB – Cost Detail form and a PNCB – Revenue Detail form must be completed for each year of prior net cumulative balance included in the summary form. If more than one Board oil sands scheme approval is being proposed for inclusion into a project, then the costs and revenues for each Board approval must be segregated into individual PNCB forms. All financial information is subject to verification by the Department's Audit Group.

SIGNATURE LINES FOR SUBMITTING ORGANISATION

The controller (or equivalent level) must sign the application of the operator, as well as the person who compiled the application.

(S. 15(5)) We confirm the preceding information to be accurate and consent to provide the Department with access to all records relating to any physical or financial component necessary to verify the project's prior net cumulative balance. We agree to abide by the provisions of the *Oil Sands Royalty Regulation, 1997* (*AR 185/97*) and the Oil Sands Royalty Guidelines that support it.

We understand that it is our responsibility to report to the Department any changes made to the project, and that these changes may require an application to amend the oil sands royalty project approval for continued application of the provisions of the *Oil Sands Royalty Regulation, 1997*.

Name/Signature _____ Name/Signature _____

Position _____ Position _____

Completed applications should be sent to the attention of:

Colin Pate, Manager Operations, Oil Sands Business Unit, Oil Development Division, Alberta Department of Energy. Mailing Address: 14th Floor, North Petroleum Plaza, 9945 - 108 street, Edmonton, Alberta, T5K 2G6.

PRIOR NET CUMULATIVE BALANCE

- PNCB - Summary
- PNCB - Cost Detail
- PNCB - Revenue Detail

Referenced from Section 3.2 in the Oil Sands Royalty Guidelines

Calculation of Prior Net Cumulative Balance - Summary

Project Operator
Project Name
For the Period *(insert beginning date and end date of Prior Net Cumulative Costs)*

PNCB - Summary

Year	Month	Allowed Operating Costs (incl. diluent costs)	Allowed Capital Costs	Royalty Paid	Less: Revenue (incl. diluent revenue)	Unrecovered Balance
						$0
1998	January	$1	$1	$1	($1)	$2
1998	February	$1	$1	$1	($1)	$4
1998	March	$1	$1	$1	($1)	$6
1998	April	$1	$1	$1	($1)	$8
1998	May	$1	$1	$1	($1)	$10
1998	June	$1	$1	$1	($1)	$12
1998	July	$1	$1	$1	($1)	$14
1998	August	$1	$1	$1	($1)	$16
1998	September	$1	$1	$1	($1)	$18
1998	October	$1	$1	$1	($1)	$20
1998	November	$1	$1	$1	($1)	$22
1998	December	$1	$1	$1	($1)	$24
1998	Period Total	$12	$12	$12	($12)	
	Balance					$24
1999	January	$1	$1	$1	($1)	$26
1999	February	$1	$1	$1	($1)	$28
1999	March	$1	$1	$1	($1)	$30
1999	April	$1	$1	$1	($1)	$32
1999	May	$1	$1	$1	($1)	$34
1999	June	$1	$1	$1	($1)	$36
1999	July	$1	$1	$1	($1)	$38
1999	August	$1	$1	$1	($1)	$40
1999	September	$1	$1	$1	($1)	$42
1999	October	$1	$1	$1	($1)	$44
1999	November	$1	$1	$1	($1)	$46
1999	December	$1	$1	$1	($1)	$48
1999	Period Total	$12	$12	$12	($12)	
	Balance					$48
2000	January	$1	$1	$1	($1)	$50
2000	February	$1	$1	$1	($1)	$52
2000	March	$1	$1	$1	($1)	$54
2000	April	$1	$1	$1	($1)	$56
2000	May	$1	$1	$1	($1)	$58
2000	June	$1	$1	$1	($1)	$60
2000	July	$1	$1	$1	($1)	$62
2000	August	$1	$1	$1	($1)	$64
2000	September	$1	$1	$1	($1)	$66
2000	October	$1	$1	$1	($1)	$68
2000	November	$1	$1	$1	($1)	$70
2000	December	$1	$1	$1	($1)	$72
2000	Period Total	$12	$12	$12	($12)	
	Balance					$72
2001	January	$1	$1	$1	($1)	$74
2001	February	$1	$1	$1	($1)	$76
2001	March	$1	$1	$1	($1)	$78
2001	April	$1	$1	$1	($1)	$80
2001	May	$1	$1	$1	($1)	$82
2001	June	$1	$1	$1	($1)	$84
2001	July	$1	$1	$1	($1)	$86
2001	August	$1	$1	$1	($1)	$88
2001	September	$1	$1	$1	($1)	$90
2001	October	$1	$1	$1	($1)	$92
2001	November	$1	$1	$1	($1)	$94
2001	December	$1	$1	$1	($1)	$96
2001	Balance	$12	$12	$12	($12)	
	Opening Balance					**$96**

Prior Net Cumulative Balance -- Cost Detail

PNCB - Summary

Project Operator
Project Name
For the Period *(insert beginning date and end date of Prior Net Cumulative Costs)*

Operating Cost Details

Month	Staff	Supplies & Services	Repairs & Maintenance	Utilities	Custom Processing	Diluent	Royalty	Total
January	$0	$0	$0	$0	$0	$0	$0	$0
February	$0	$0	$0	$0	$0	$0	$0	$0
March	$0	$0	$0	$0	$0	$0	$0	$0
April	$0	$0	$0	$0	$0	$0	$0	$0
May	$0	$0	$0	$0	$0	$0	$0	$0
June	$0	$0	$0	$0	$0	$0	$0	$0
July	$0	$0	$0	$0	$0	$0	$0	$0
August	$0	$0	$0	$0	$0	$0	$0	$0
September	$0	$0	$0	$0	$0	$0	$0	$0
October	$0	$0	$0	$0	$0	$0	$0	$0
November	$0	$0	$0	$0	$0	$0	$0	$0
December	$0	$0	$0	$0	$0	$0	$0	$0
Sub-total	$0	$0	$0	$0	$0	$0	$0	$0

Capital Cost Details

Month	Drilling & Completion	Production Equipment	New Facilities	Facility Improvements	Seismic	Other	Other	Total
January	$0	$0	$0	$0	$0	$0	$0	$0
February	$0	$0	$0	$0	$0	$0	$0	$0
March	$0	$0	$0	$0	$0	$0	$0	$0
April	$0	$0	$0	$0	$0	$0	$0	$0
May	$0	$0	$0	$0	$0	$0	$0	$0
June	$0	$0	$0	$0	$0	$0	$0	$0
July	$0	$0	$0	$0	$0	$0	$0	$0
August	$0	$0	$0	$0	$0	$0	$0	$0
September	$0	$0	$0	$0	$0	$0	$0	$0
October	$0	$0	$0	$0	$0	$0	$0	$0
November	$0	$0	$0	$0	$0	$0	$0	$0
December	$0	$0	$0	$0	$0	$0	$0	$0
Sub-total	$0	$0	$0	$0	$0	$0	$0	$0

Period Total $0

Prior Net Cumulative Balance -- Revenue Detail

PNCB - Summary

Project Operator
Project Name
For the Period *(insert beginning date and end date of Prior Net Cumulative Costs)*

Month	Sales Volume** (m^3)	Sales Revenue ($)	Less: Handling Charges ($)	Other Net Proceeds ($)	Project Revenue ($)
January	0.0	$0	$0	$0	$0
February	0.0	$0	$0	$0	$0
March	0.0	$0	$0	$0	$0
April	0.0	$0	$0	$0	$0
May	0.0	$0	$0	$0	$0
June	0.0	$0	$0	$0	$0
July	0.0	$0	$0	$0	$0
August	0.0	$0	$0	$0	$0
September	0.0	$0	$0	$0	$0
October	0.0	$0	$0	$0	$0
November	0.0	$0	$0	$0	$0
December	0.0	$0	$0	$0	$0
Total	0.0	$0	$0	$0	$0

** If more than one oil sands product is sold then the volume and sales revenue must be reported individually.

APPENDIX 3. ALLOWED COST LIST

The following cost list is intended to provide guidance as to the types of costs that are allowable under the *Regulation*. It is not meant to be an inclusive list of allowed costs. The following are the types of costs that would be allowed costs of a project, to the extent that they fall within *section 2* of *Schedules 1* or *2* of the *Regulation* and are not excluded from allowed costs under *section 3* of these *Schedules*, as the case may be.

Construction (Investment) Related Costs

1. Costs to acquire, construct or replace property, plant and equipment, which are:
   (a) laid-down costs of equipment, materials and supplies before installation or assembly;
   (b) direct and allocated costs of constructing, installing, assembling or erecting plant and equipment, including the costs of direct labour, benefits and an allocation of plant overhead costs; and
   (c) costs for work performed by other companies or individuals.

   Note: plant overhead costs allocated to property, plant and equipment are those costs directly related to constructing, installing, assembling or erecting a plant and equipment that cannot be conveniently identified with a specific plant, and do not include any allocation of administrative and other costs that cannot be conveniently identified with constructing, installing, assembling or erecting a plant and equipment.
2. Costs of purchasing land and buildings.
3. Costs of drilling, completing, re-completing, testing, capping, plugging and abandoning, deepening, plugging back or redrilling a well, or converting a well to a source, input, observation or producing well.
4. Costs of municipal and regional improvements that are required by a government or government agency.
5. Costs of licensed or purchased technology (including patents and other proprietary rights), if:
   (a) the costs are payable to a person other than a lessee or an affiliate of a lessee or of the operator; or
   (b) the costs are payable to a lessee or an affiliate of a lessee or of the operator, and the Crown has approved the costs;

   Note: any consideration subsequently received (or receivable) for the technology of the project will be considered as part of other net proceeds for the project.
6. The costs of planning the de-bottlenecking and/or further phases or expansions of the oil sands project, including engineering, scheduling, and contract preparation and review.

   Note: costs must be consistent with the project description.
7. Pipeline management costs upstream of the royalty calculation point.
8. Problem management costs (i.e., casing failures).

Operating Related Costs

1. Costs of salaries, wages, benefits, training, travel and relocation of the operator's, lessee's and affiliate's employees whose work is directly attributable to the oil sands project.
2. Cost of employee severance (including associated relocation and employer training expenses).
3. Costs of employee safety equipment, safety training, preparation and implementation of oil sands project safety manuals and emergency procedures.

4. Costs of contract labour, material, supplies, chemicals, catalysts and services, including professional services.

5. Costs of gas and diluent supply management.

   Note: these are costs that are directly attributable to the project as evidenced by time allocation reports, or other documentation acceptable to audit.

6. Costs of cost, production, and revenue accounting.

   Note: these are costs that are directly attributable to the project as evidenced by time allocation reports, or other documentation acceptable to audit.

7. Costs of purchasing personnel for materials and supplies.

   Note: these are costs that are directly attributable to the project as evidenced by time allocation reports, or other documentation acceptable to audit.

8. Costs of rent or other lease payments in respect of equipment, plant and buildings.

9. Cost of municipal land taxes.

10. Cost of surface lease rentals and costs of rentals under mineral agreements granting the right to recover leased substances.

11. Costs of telecommunications, power, water, sewage disposal, and utility construction contribution payments.

12. Cost of insurance.

    Note: any proceeds received (or receivable) under an insurance policy will be considered as part of other net proceeds of the project if the insurance premiums are allowed costs.

13. Cost of diluent.

    Note: in determining gross revenue of a project, the cost of diluent is deducted from the project revenue.

14. Cost of fuel.

15. Costs associated with site drainage and overburden removal, including pre-stripping.

16. Costs of repair and maintenance, including but not limited to, direct labour, including benefits, materials and supplies and work performed by other companies.

17. Costs of deposits acceptable to the Crown in amounts sufficient to ensure, to the satisfaction of the Crown, proper reclamation of the lands involved in the project (i.e., ongoing cash reclamation costs for the project).

18. Cost of computer systems.

    Note: costs that are directly attributable to the project as evidenced by documentation acceptable to audit.

19. External audit costs.

20. Internal and external legal costs associated with damage claims and regulatory applications provided there is no negligence and/or it is not with respect to a claim against the Crown.

    Note: proceeds received (or receivable) as a result of a court judgement will be considered as part of other net proceeds of the project, unless it is in respect of a claim against the Crown.

APPENDIX 4. PRE-PAYOUT — MONTHLY REPORT

- MRC - 1a Pre-payout - Monthly Royalty Calculation (Blended Bitumen)
- MRC - 1b Pre-payout - Monthly Royalty Calculation (Bitumen)
- MRC - 1c Pre-payout - Monthly Royalty Calculation (Synthetic Crude Oil)
- MRC - 1d Pre-payout - Monthly Royalty Calculation (Other Oil Sands Products)

Referenced from Section 5.1.2 in the Oil Sands Royalty Guidelines

These forms are also available from the Department web page:
http:/www.resdev.ab.ca/sands/forms/index.htm

Pre-payout -- Monthly Royalty Calculation (Blended Bitumen)

Project: **OSR Approval Number:**

Operator:

Date:

		Volume (m^3)	Price ($/$m^3$)	Value ($)
Blended	Sales*	300.2	$110.00	$33,022.00
	Less: Handling Charges			
	Trucking	100.2	$5.00	($501.00)
	Pipeline Tariffs	200.0	$0.80	($160.00)
	Other	0.0	$0.00	$0.00
	Unit Price	300.2	$107.80	$32,361.00
	Royalty Share Disposed	3.0	$107.80	$323.61
	Less: Diluent Value	(0.6)	$140.00	($84.00)
	Royalty Payable	**2.4**	$99.75	**$239.61**
	** Diluent Included in Sales*	*60.0*	*$140.00*	*$8,400.00*
	Crude Bitumen Net Sales	*240.2*	*$99.75*	*$23,961.00*
	Production:			
	Crown (m^3):	*300.0*		
	Freehold (m^3):	*0.0*		

Pre-payout -- Monthly Royalty Calculation (Bitumen)

Project: **OSR Approval Number:**

Operator:

Date:

		Volume (m^3)	Price ($/$m^3$)	Value ($)
Bitumen	**Sales***	120.0	$40.00	$4,800.00
	Less: Handling Charges			
	Trucking (clean oil only)	120.0	$5.00	($600.00)
	Pipeline Tariffs	0.0	$0.00	$0.00
	Other	0.0	$0.00	$0.00
	Unit Price	120.0	$35.00	$4,200.00
	Royalty Share Disposed	1.2	$35.00	$42.00
	Royalty Payable	1.2	$35.00	**$42.00**
	Crude Bitumen Net Sales	*120.0*	*$35.00*	*$4,200.00*
	Production:			
	Crown (m^3):	*120.0*		
	Freehold (m^3):	*0.0*		

MRC - 1c

Pre-payout -- Monthly Royalty Calculation (Synthetic Crude Oil)

Project: **OSR Approval Number:**

Operator:

Date:

		Volume (m^3)	Price ($/$m^3$)	Value ($)
Synthetic Crude Oil	Sales*	200.0	$140.00	$28,000.00
	Less: Handling Charges			
	Trucking	100.0	$5.00	($500.00)
	Pipeline Tariffs	100.0	$0.60	($60.00)
	Other	0.0	$0.00	$0.00
	Unit Price	200.0	$137.20	$27,440.00
	Royalty Share Disposed	2.0	$137.20	$274.40
	Royalty Payable	**2.0**	$137.20	**$274.40**
	Crude Bitumen Net Sales	*200.0*	*$137.20*	*$27,440.00*
	Production:			
	Crown (m^3):	*220.0*		
	Freehold (m^3):	*0.0*		

Pre-payout -- Monthly Royalty Calculation (Other Oil Sands Products)

Project: **OSR Approval Number:**

Operator:

Date:

		Volume (m^3)	Price ($/$m^3$)	Value ($)
Other Oil Sands Products	Sales	125.0	$5.00	$625.00
	Less: Handling Charges			
	Transport	0.0	$0.00	$0.00
	Other	125.0	$4.00	($500.00)
	Unit Price	125.0	$1.00	$125.00
	Royalty Share Disposed	1.3	$1.00	$1.25
	Royalty Payable	**1.3**	$1.00	**$1.25**

Production:	
Crown (m^3):	*125.0*
Freehold (m^3):	*0.0*

APPENDIX 5. PRE-PAYOUT PROJECT — END OF PERIOD STATEMENT

- PRE - 1 - End of Period Statement - Auditor's Letter
- PRE - 2 - End of Period Statement - Project Payout Status
- PRE - 3 - End of Period Statement - Allowed Costs
- PRE - 3 Supp-a - End of Period Statement - Unaudited Cost Detail (Sample Format)
- PRE - 3 Supp-b - End of Period Statement - Unaudited Cost Detail (Sample Format)
- PRE - 4 - End of Period Statement - Return Allowance
- PRE - 5 - End of Period Statement - Revenue
- PRE-6 - End of Period Statement - Royalty Summary
- PRE-6a - End of Period Statement - Royalty Detail (Blended Bitumen)
- PRE-6b - End of Period Statement - Royalty Detail (Bitumen)
- PRE-6c - End of Period Statement - Royalty Detail (SCO)
- PRE-6d - End of Period Statement - Royalty Detail (Other Oil Sand Products)

Referenced from Section 5.2.1 in the Oil Sands Royalty Guidelines

These forms are also available from the Department web page:
http:/www.resdev.ab.ca/sands/forms/index.htm

Pre Payout Project - End of Period Statement - Auditor's Letter

Signed letter from the Auditing Firm indicating their Auditors are satisfied that the Operator has complied with the Oil Sands Royalty Regulation, 1997. Independently audited statements are required only if the Project has bitumen sales that average greater than 10,000 barrels per day during the Period. If sales average less than 10,000 barrels per day, then end of period financial statements prepared by the Operator are acceptable.

Pre Payout Project - End of Period Statement - Project Payout Status

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period *Beginning Date:* *End Date:*

Cumulative Costs

Cumulative Costs at Beginning of Period *(insert date Period began)*	$2,000,000		
Adjustments from Prior Periods	$0		
Revised Cumulative Costs for Beginning of Period	$2,000,000		
Allowable Costs Incurred during the Period (excluding Royalty and Return Allowance)	$14,136,276		[PRE -3]
Royalty Paid during the Period	$37,768		[PRE - 6]
Return Allowance Earned during the Period	$408,396		[PRE - 4]
Cumulative Costs at End of Period *(insert date Period ended)*		$16,582,440	

Cumulative Revenue

Cumulative Revenue at Beginning of Period *(insert date Period began)*	($250,000)		
Adjustments from Prior Periods	$0		
Revised Cumulative Revenue for Beginning of Period	($250,000)		
Revenue during the Period	($5,060,089)		[PRE - 5]
Cumulative Revenue at End of Period *(insert date Period ended)*		($5,310,089)	

Project Net Cumulative Cost/Project Net Cumulative Balance at End of Period *(insert date Period ended)* $11,272,351

Expected Date of Payout based on estimated price $/m^3, price differential, production volumes, and Cdn. exchange rate.

Section 29 (2)(a) of the Oil Sands Royalty Regulation, 1997 requires that the End of Period Statement be signed by the Operator of the Project or by the Operator's representative.

Pre Payout Project - End of Period Statement - Allowed Costs

Project Operator:
Project Name and OSR Approval Number
Project Owner(s)
For the Period

Beginning Date: _____ End Date: _____

Allowed Costs

Operating		$10,365,000
Capital		$2,500,000
Diluent		$1,271,276
	Sub-total	$14,136,276
Royalty Paid		$37,768
Return Allowance Earned		$408,396
	Total	$14,582,440

Pre Payout Project - End of Period Statement - Unaudited Cost Detail (Sample Format)

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period Beginning Date: End Date:

Operating Cost Details

Month	Staff	Supplies & Services	Repairs & Maintenance	Utilities	Fuel	Other	Total
January	$375,000	$190,833	$149,750	$70,087	$74,096	$8,325	$868,091
February	$386,123	$189,547	$148,954	$69,871	$73,858	$8,268	$876,621
March	$369,045	$187,526	$147,985	$66,457	$73,103	$8,459	$852,575
April	$375,078	$188,987	$168,512	$68,957	$75,184	$8,359	$885,077
May	$372,896	$192,351	$159,255	$71,578	$74,358	$8,459	$878,897
June	$377,891	$187,458	$155,877	$70,259	$75,895	$8,247	$875,627
July	$381,897	$194,127	$150,459	$69,875	$63,523	$8,115	$867,996
August	$375,149	$190,752	$145,023	$68,569	$62,335	$8,357	$850,185
September	$377,584	$189,741	$146,257	$70,589	$64,172	$8,168	$856,511
October	$376,582	$192,341	$147,541	$70,015	$64,650	$8,195	$859,324
November	$374,394	$186,594	$144,052	$69,783	$64,466	$8,349	$847,638
December	$367,361	$199,743	$133,335	$71,930	$65,390	$8,699	$846,458
Sub-total	$4,509,000	$2,290,000	$1,797,000	$837,970	$831,030	$100,000	$10,365,000

Capital Cost Details

Month	Drilling & Completion	Production Equipment	New Facilities	Facility Improvements	Seismic	Other	Total
January	$100,000	$149,875	$0	$41,738	$22,229	$11,200	$325,042
February	$100,000	$151,789	$0	$41,615	$22,157	$12,500	$328,061
March	$100,000	$150,265	$0	$39,660	$21,931	$13,887	$325,743
April	$0	$0	$0	$41,092	$22,555	$13,358	$77,005
May	$0	$0	$87,450	$42,593	$22,307	$10,258	$162,608
June	$0	$0	$88,100	$41,837	$23,664	$11,239	$164,840
July	$0	$0	$86,900	$41,617	$19,057	$11,781	$159,355
August	$0	$0	$87,550	$40,869	$18,701	$12,593	$159,713
September	$0	$0	$0	$42,026	$19,943	$13,954	$75,923
October	$0	$0	$0	$41,698	$19,395	$12,891	$73,984
November	$100,000	$154,753	$0	$41,565	$19,340	$12,658	$328,316
December	$100,000	$143,318	$0	$42,794	$19,617	$13,681	$319,410
Sub-total	$500,000	$750,000	$350,000	$499,104	$250,896	$150,000	$2,500,000
Diluent							$1,271,276
Royalty							$37,768
Return Allowance							$408,396
Period Total							**$14,582,440**

Pre Payout Project - End of Period Statement - Unaudited Cost Detail (Sample Format)

PRE - 3 Supp-b

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period Beginning Date: ..... End Date: .....

Allowed Costs

Operating		
	Staff	$4,509,000
	Fuel	$1,669,000
	Supplies	$2,290,000
	Contracted Services	$1,797,000
	Research	$100,000
		$10,365,000
Capital		
	Sustaining	
	Equipment	$750,000
	Facility Rehab.	$750,000
		$1,500,000
	Developmental	
	Drilling	$500,000
	New Facilities	$350,000
	Other	$150,000
		$1,000,000
Diluent		$1,271,276
Royalty Paid		$37,768
Return Allowance		$408,396
Total		$14,582,439

OR:

Allowed Costs

Operating		
	Mining	$4,509,000
	Extraction	$1,669,000
	Upgrading	$2,290,000
	Contracted Services	$1,797,000
	Research	$100,000
		$10,365,000
Capital		
	Sustaining	
	Equipment	$750,000
	Facility Rehab.	$750,000
		$1,500,000
	Developmental	
	Drilling	$500,000
	New Facilities	$350,000
	Other	$150,000
		$1,000,000
Diluent		$1,271,276
Royalty Paid		$37,768
Return Allowance		$408,396
Total		$14,582,439

Pre Payout Project - End of Period Statement - Return Allowance

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period

Beginning Date: .....

End Date: .....

Month	Costs (excluding Royalty and Return Allowance) ($)	Royalty Paid ($)	Less: Cumulative Revenue ($)	Net Cumulative Balance (base for Return Allowance) ($)	LTBR - monthly rate (%)	Return Allowance ($)	Cumulative Cost ($)
Carry Forward from Previous Period							$2,000,000
January	$1,277,523	$2,369	($572,287)	$2,707,605	0.46%	$12,455	$3,292,347
February	$1,298,368	$2,866	($953,610)	$3,639,971	0.48%	$17,472	$4,611,053
March	$1,230,784	$1,877	($1,194,738)	$4,648,976	0.46%	$21,385	$5,865,099
April	$1,023,325	$2,017	($1,458,683)	$5,431,758	0.47%	$25,529	$6,915,970
May	$1,141,991	$2,914	($1,851,579)	$6,209,296	0.47%	$29,184	$8,090,059
June	$1,136,267	$3,854	($2,333,764)	$6,896,416	0.48%	$33,103	$9,263,283
July	$1,157,751	$3,699	($2,835,037)	$7,589,696	0.47%	$35,672	$10,460,404
August	$1,141,102	$3,691	($3,336,329)	$8,268,868	0.48%	$39,691	$11,644,888
September	$1,062,834	$3,699	($3,837,627)	$8,873,794	0.48%	$42,594	$12,754,015
October	$1,063,708	$3,561	($4,325,118)	$9,496,166	0.48%	$45,582	$13,866,865
November	$1,306,354	$3,602	($4,816,717)	$10,360,104	0.49%	$50,765	$15,227,586
December	$1,296,269	$3,620	($5,310,089)	$11,217,385	0.49%	$54,965	$16,582,440
Period Total	$14,136,276	$37,768				$408,396	
Carry Forward to Next Period							$16,582,440

Pre Payout Project - End of Period Statement - Revenue

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period Beginning Date: ..... End Date: .....

Month	Sales Revenue (Bitumen, Blend, SCO or Other Oil Sands Products) ($)	Less: Handling Charges ($)	Less: Diluent Costs ($)	Gross Revenue ($)	Other Net Proceeds ($)	Cumulative Revenue ($)
Carry Forward from Previous Period						$250,000
January	$332,000	($10,713)	($84,390)	$236,897	$1,000	$572,287
February	$392,710	($12,387)	($93,685)	$286,638	$1,000	$953,610
March	$249,405	($9,277)	($52,467)	$187,661	$1,000	$1,194,738
April	$271,986	($9,041)	($61,244)	$201,701	$1,000	$1,458,683
May	$404,315	($12,419)	($100,486)	$291,410	$1,000	$1,851,579
June	$497,485	($16,300)	($95,800)	$385,385	$1,000	$2,333,764
July	$516,873	($16,600)	($130,400)	$369,873	$1,000	$2,835,037
August	$517,092	($16,800)	($131,204)	$369,088	$1,000	$3,336,329
September	$517,098	($16,800)	($130,400)	$369,898	$1,000	$3,837,627
October	$503,191	($16,700)	($130,400)	$356,091	$1,000	$4,325,118
November	$507,299	($16,700)	($130,400)	$360,199	$1,000	$4,816,717
December	$509,072	($16,700)	($130,400)	$361,972	$1,000	$5,310,089
Period Total	$5,218,526	($170,437)	($1,271,276)	$3,776,813	$12,000	$5,060,089
Carry Forward to Next Period						$5,310,089

Revenue from Other Net Proceeds

Disposition of assets and non-oil sands' products	$0
Sale / Lease of Technology	$4,000
Insurance and Legal Settlements	$0
Custom Processing and Transportation Fees	$8,000
Processing of Project Owners' non-project substances	$0
Period Total	$12,000

Pre Payout Project - End of Period Statement - Royalty Summary

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period Beginning Date: ..... End Date: .....

Total

Month	Blend Royalty Share Payable ($)	Bitumen Royalty Share Payable ($)	SCO Royalty Share Payable ($)	Other Royalty Share Payable ($)	Total Royalties Payable ($)	Total Royalty Paid ($)
January	$1,895	$473	$0	$1	$2,369	$2,369
February	$2,306	$560	$0	$0	$2,866	$2,866
March	$1,524	$353	$0	$0	$1,877	$1,877
April	$1,629	$387	$0	$1	$2,017	$2,017
May	$2,337	$577	$0	$0	$2,914	$2,914
June	$3,146	$707	$0	$1	$3,854	$3,854
July	$2,963	$735	$0	$1	$3,699	$3,699
August	$2,954	$736	$0	$1	$3,691	$3,691
September	$2,963	$736	$0	$1	$3,699	$3,699
October	$2,845	$715	$0	$1	$3,561	$3,561
November	$2,880	$721	$0	$1	$3,602	$3,602
December	$2,895	$724	$0	$1	$3,620	$3,620
Period Total	$30,336	$7,424	$0	$8	$37,768	$37,768

Pre Payout Project - End of Period Statement - Royalty Detail (Blended Bitumen)

PRE - 6a

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period Beginning Date: ..... End Date: .....

Blended Bitumen

Month	Blend Sales Volume (m^3)	Blend Sales Revenue ($)	Less: Handling Charges ($)	Royalty Share Unit Price ($/m^3$)	Blend Royalty Share (m^3)	Blend Royalty Share ($)	Less: Diluent Costs in Royalty Share ($)	Blend Royalty Payable ($)	Blend Royalty Paid ($)
January	2,000.0	$280,500	($6,610)	$136.95	20.0	$2,739	($844)	$1,895	$1,895
February	2,400.0	$332,010	($7,715)	$135.12	24.0	$3,243	($937)	$2,306	$2,306
March	1,500.0	$210,375	($5,533)	$136.56	15.0	$2,048	($525)	$1,524	$1,524
April	1,633.3	$229,500	($5,356)	$137.23	16.3	$2,241	($612)	$1,629	$1,629
May	2,433.3	$341,955	($7,814)	$137.32	24.3	$3,341	($1,005)	$2,337	$2,337
June	3,000.0	$421,175	($10,800)	$136.79	30.0	$4,104	($958)	$3,146	$3,146
July	3,066.7	$437,750	($11,100)	$139.12	30.7	$4,267	($1,304)	$2,963	$2,963
August	3,066.7	$437,750	($11,100)	$139.12	30.7	$4,267	($1,312)	$2,954	$2,954
September	3,066.7	$437,750	($11,100)	$139.12	30.7	$4,267	($1,304)	$2,963	$2,963
October	2,866.7	$426,020	($11,100)	$144.74	28.7	$4,149	($1,304)	$2,845	$2,845
November	2,933.3	$429,505	($11,100)	$142.64	29.3	$4,184	($1,304)	$2,880	$2,880
December	2,966.7	$431,035	($11,100)	$141.55	29.7	$4,199	($1,304)	$2,895	$2,895
Period Total	30,933.4	4,415,325.0	(110,428.0)	$139.17	309.3	$43,049	($12,713)	$30,336	$30,336

Pre Payout Project - End of Period Statement - Royalty Detail (Bitumen)

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period Beginning Date: ..... End Date: .....

Bitumen

Month	Bitumen Sales Volume (m^3)	Bitumen Sales Revenue ($)	Less: Handling Charges ($)	Bitumen Royalty Share Unit Price ($/$m^3$)	Bitumen Royalty Share (m^3)	Bitumen Royalty Share Payable ($)	Bitumen Royalty Paid ($)
January	1,000.0	$49,500	($2,203)	$47.30	10.0	$473	$473
February	1,200.0	$58,590	($2,572)	$46.68	12.0	$560	$560
March	750.0	$37,125	($1,844)	$47.04	7.5	$353	$353
April	816.7	$40,500	($1,785)	$47.40	8.2	$387	$387
May	1,216.7	$60,345	($2,605)	$47.46	12.2	$577	$577
June	1,500.0	$74,325	($3,600)	$47.15	15.0	$707	$707
July	1,533.3	$77,245	($3,700)	$47.97	15.3	$735	$735
August	1,533.3	$77,250	($3,700)	$47.97	15.3	$736	$736
September	1,533.3	$77,250	($3,700)	$47.97	15.3	$736	$736
October	1,433.3	$75,180	($3,700)	$49.87	14.3	$715	$715
November	1,466.7	$75,795	($3,700)	$49.15	14.7	$721	$721
December	1,483.3	$76,065	($3,700)	$48.79	14.8	$724	$724
Period Total	15,466.6	779,170.0	(36,809.0)	$48.00	154.7	$7,424	$7,424

Pre Payout Project - End of Period Statement - Royalty Detail (SCO)

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period Beginning Date: End Date:

Synthetic Crude Oil

Month	SCO Sales Volume (m^3)	SCO Sales Revenue ($)	Less: Handling Charges ($)	SCO Royalty Share Unit Price ($/$m^3$)	SCO Royalty Share (m^3)	SCO Royalty Share Payable ($)	SCO Royalty Paid ($)
January	0.0	$0	$0	$0.00	0.0	$0	$0
February	0.0	$0	$0	$0.00	0.0	$0	$0
March	0.0	$0	$0	$0.00	0.0	$0	$0
April	0.0	$0	$0	$0.00	0.0	$0	$0
May	0.0	$0	$0	$0.00	0.0	$0	$0
June	0.0	$0	$0	$0.00	0.0	$0	$0
July	0.0	$0	$0	$0.00	0.0	$0	$0
August	0.0	$0	$0	$0.00	0.0	$0	$0
September	0.0	$0	$0	$0.00	0.0	$0	$0
October	0.0	$0	$0	$0.00	0.0	$0	$0
November	0.0	$0	$0	$0.00	0.0	$0	$0
December	0.0	$0	$0	$0.00	0.0	$0	$0
Period Total	0.0	$0	$0	$0.00	0.0	$0	$0

Pre Payout Project - End of Period Statement - Royalty Detail (Other Oil Sand Products)

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period Beginning Date: End Date:

Other Oil Sands Products *(specify product)*

Month	Sales Volume (m^3 or tonne)	Sales Revenue ($)	Less: Handling Charges ($)	Royalty Share Unit Price ($/$m^3$ or $/tonne)	Royalty Share (m^3 or tonne)	Royalty Share Payable ($)	Total Royalty Paid ($)
January	200.0	$2,000	($1,900)	$0.50	2.0	$1	$1
February	210.0	$2,110	($2,100)	$0.05	2.1	$0	$0
March	190.0	$1,905	($1,900)	$0.03	1.9	$0	$0
April	195.0	$1,986	($1,900)	$0.44	2.0	$1	$1
May	205.0	$2,015	($2,000)	$0.07	2.1	$0	$0
June	203.0	$1,985	($1,900)	$0.42	2.0	$1	$1
July	198.0	$1,878	($1,800)	$0.39	2.0	$1	$1
August	212.0	$2,092	($2,000)	$0.43	2.1	$1	$1
September	215.0	$2,098	($2,000)	$0.46	2.2	$1	$1
October	200.0	$1,991	($1,900)	$0.46	2.0	$1	$1
November	204.0	$1,999	($1,900)	$0.49	2.0	$1	$1
December	194.0	$1,972	($1,900)	$0.37	1.9	$1	$1
Period Total	2,426.0	$24,031	($23,200)	$0.34	24.3	$8	$8

APPENDIX 6. POST-PAYOUT PROJECT — GOOD FAITH ESTIMATE

- GFE - 1 - Good Faith Estimate (Annual Royalty Estimate)
- Sample calculations

Referenced from Section 5.3.2 in the Oil Sands Royalty Guidelines

These forms are also available from the Department web page:
http:/www.resdev.ab.ca/sands/forms/index.htm

POST - PAYOUT -- GOOD FAITH ESTIMATE (ANNUAL ROYALTY ESTIMATE)

Project: **OSR Approval Number:**

Operator:

Date/Period:

Indicate Estimate or Actual for Month	JAN (Act)	FEB (Act)	MAR (Act)	APR (Act)	MAY (Est)	JUN (Est)	JUL (Est)	AUG (Est)	SEP (Est)	OCT (Est)	NOV (Est)	DEC (Est)	TOTAL
PRODUCTION AND SALES DATA													
Total Crude Bitumen Production (monthly m^3)	304,294	278,490	260,083	262,708	278,330	309,690	360,152	361,565	321,552	307,458	309,744	323,119	3,677,185
Crude Bitumen Net Price	$115.26	$83.44	$69.70	$69.78	$87.60	$87.62	$87.65	$87.65	$87.44	$87.43	$87.43	$87.07	---
Crude Bitumen Sales (m^3)	0	0	0	0	0	0	0	0	0	0	0	0	0
Crude Bitumen Unit Price ($/m^3$)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	---
Blended Bitumen Sales (m^3)	423,854	390,984	364,511	356,503	380,763	423,653	492,684	494,618	439,860	420,599	423,727	442,024	5,053,790
Diluent Volume Included in Sales (m^3)	119,550	112,494	104,428	93,795	102,423	113,963	132,532	133,053	118,328	113,141	113,983	118,905	1,376,595
Blended Bitumen Unit Price ($/m^3$)	$145.90	$118.29	$104.76	$101.04	$118.33	$118.33	$118.33	$118.33	$118.33	$118.33	$118.33	$118.06	---
SCO Sales (m^3)	0	0	0	0	0	0	0	0	0	0	0	0	0
SCO Unit Price ($/m^3$)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	---
Total Other Oil Sands Products (m^3 or tonnes)	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000
Product Unit Price ($/m^3$ or $/tonne)	$55.00	$55.00	$55.00	$55.00	$55.00	$55.00	$55.00	$55.00	$55.00	$55.00	$55.00	$55.00	---
REVENUE													
Crude Bitumen Revenue	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Less: Bitumen handling charges	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Blended Bitumen Revenue	$61,851,000	$46,257,000	$38,193,600	$36,027,000	$45,061,800	$50,139,000	$58,308,600	$58,537,800	$52,059,600	$49,778,000	$50,147,000	$52,193,000	$598,553,400
Less: Blend handling charges	($10,000)	($7,479)	($6,175)	($5,825)	($7,286)	($8,106)	($9,427)	($9,464)	($8,417)	($8,048)	($8,108)	($8,439)	($96,773)
SCO Revenue	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Less: SCO handling charges	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other Oil Sands Products' Proceeds	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$6,000,000
Less: Handling charges	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000	$600,000
Project Revenue *(use to calculate Net Revenue)*	$62,301,000	$46,709,521	$38,737,425	$36,671,175	$45,604,514	$50,680,894	$58,849,173	$59,078,336	$52,601,183	$50,319,952	$50,688,892	$52,734,561	$605,056,627
Diluent Price ($/$m^3$)	$223.90	$204.57	$192.08	$188.61	$201.83	$201.78	$201.70	$201.70	$202.26	$202.31	$202.30	$202.26	
Less: Cost of Diluent Used	($26,767,800)	($23,013,000)	($20,058,600)	($17,690,400)	($20,672,400)	($22,995,000)	($26,731,800)	($26,836,800)	($23,933,400)	($22,889,400)	($23,059,200)	($24,049,800)	($278,697,600)
Gross Revenue *(do not use to calculate Net Revenue)*	$36,623,200	$23,786,521	$18,678,825	$18,880,775	$24,932,114	$27,685,894	$32,117,373	$32,241,536	$28,667,783	$27,430,552	$27,629,692	$28,694,761	$326,359,027
ALLOWED COSTS													
Plant Operations (excludes cost of diluent)	$65,346,000	$9,747,000	$13,346,000	$16,346,000	$9,847,000	$10,848,000	$12,900,000	$12,450,000	$10,849,000	$9,348,000	$9,348,000	$9,348,000	$189,725,000
Diluent	$26,767,800	$23,013,000	$20,058,600	$17,690,400	$20,672,400	$22,995,000	$26,731,800	$26,836,800	$23,933,400	$22,889,400	$23,059,200	$24,049,800	$278,697,600
Capital	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$12,000,000
Period Costs	$93,115,800	$33,760,000	$34,404,600	$35,036,400	$31,519,400	$34,843,000	$40,631,800	$40,286,800	$35,782,400	$33,237,400	$33,407,200	$34,397,800	$480,422,600
Previous Period's Net Loss	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	$0
Total Allowed Costs													$480,422,600
OTHER NET PROCEEDS													
Carry forward amount	$40,000,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$40,000,000
Earned	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$4,200,000
Total Other Net Proceeds	$40,350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$44,200,000
Allowable Revenue from Other Net Proceeds	$40,350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$350,000	$44,200,000
Excess of Other Net Proceeds over Allowed Costs	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	$0
NET REVENUE / (NET LOSS - CARRY FORWARD)	$9,626,200	$13,389,521	$4,682,825	$1,884,775	$14,436,114	$16,187,894	$18,567,373	$19,141,536	$17,168,783	$17,432,552	$17,631,892	$18,696,761	$168,834,027
Crown Royalty (25% Net Revenue)	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	$42,208,507
Crown Royalty (1% Gross Revenue)	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	⇨	$3,263,590
ROYALTY PAYMENT (for the month)	$4,607,202	$3,076,347	$2,415,761	$2,441,879	$3,224,508	$3,580,659	$4,163,788	$4,160,847	$3,707,648	$3,547,635	$3,573,300	$3,709,844	$42,208,507
Cumulative Actual Royalty Paid	$4,607,202	$7,683,549	$10,099,310	$12,541,189	$15,765,697	$19,346,356	$23,500,144	$27,660,991	$31,377,638	$34,925,273	$38,498,663	$42,208,507	$42,208,507

SAMPLE CROWN ROYALTY CALCULATIONS

Monthly Installment of Royalty =

(0.25) * (Estimated Annual Net Revenue) * $\frac{\text{(Monthly Gross Revenue to Date)}}{\text{(Estimated Annual Gross Revenue)}}$ - (Royalties Actually Paid to Date)

OR

(0.01) * (Annual Gross Revenue) - (Royalty Actually Paid to Date)

BASED ON THE GREATER ANNUAL TOTAL OF 1% GROSS REVENUES OR 25% NET REVENUES

==> (0.25) * (168,834,027) * $\frac{(35,623,200 + 23,786,521 + 18,678,825 + 18,880,775)}{326,359,027}$ - 10,099,310

==> (42,208,057) * (0.297125) - 10,099,310

==> 12,541,189 - 10,099,310

==> 2,441,879 ==> April's Installment of the Royalty Payment

Cost of Diluent =

(Opening Inventory + Purchases) * (Weighted Average Cost)

==> ==> ==> ==>

Opening inventory: 19,000m³ @ $190/m3 = 3,610,000

Purchases in Month: 35,190m³ @ $191/m³ = 6,721,290

30,200m³ @ $187/m³ = 5,647,400

19,000m³ @ $188/m³ = 3,572,000

5,200m³ @ $179/m³ = 930,800

108,590m³ 20,481,490

Note: Average Cost = ($935/m³)/5 = $187.00/m³

==> Weighted Average Cost = $188.61/m³

Project used 93,795m³ which at $188.61/m³ results in a cost of $17,690,674.

Blended Bitumen Unit Price Calculation =

$\frac{\text{(Blended Bitumen Revenue) - (Handling Charges)}}{\text{(Quantity)}}$

==> ==> ==> ==>

==> $\frac{(36,027,000) - (5,825)}{(356,503)}$

==> $\frac{(36,021,175)}{(356,503)}$ ==> $101.04/m³

April Project Revenue =

(Oil Sands Product Quantity) * (Unit Price)

==> ==> ==> ==>

==> (356,503) * (101.04) + (10,000) * (55.00)

==> 36,571,063 Note: Rounding adjustments cause this figure to be slightly lower than the 36,571,175 that appears on the form.

April Gross Revenue =

(Project Revenue - Cost of Diluent)

==> ==> ==> ==> ==>

==> (36,571,175) - (17,690,400)

==> 18,880,775

April Net Revenue =

(Project Revenue) - (Allowed Costs - Other Net Proceeds)

==> ==> ==> ==>

==> (36,571,1750) - (35,036,400 - 350,000)

==> 1,884,775

APPENDIX 7. POST-PAYOUT PROJECT — END OF PERIOD STATEMENT

- PST - 1 - End of Period Statement - Auditor's Letter
- PST - 2 - End of Period Statement - Royalty Payable
- PST - 3 - End of Period Statement - Royalty Calculations
- PST - 4 - End of Period Statement - Allowed Costs
- PST - 4 Supp-a - End of Period Statement - Unaudited Cost Detail (Sample Format)
- PST - 4 Supp-b - End of Period Statement - Unaudited Cost Detail (Sample Format)
- PST - 5 - End of Period Statement - Other Net Proceeds
- PST - 6 - End of Period Statement - Return Allowance
- PST - 7 - End of Period Statement - Revenue
- PST - 7a - End of Period Statement - Revenue Detail (Blended Bitumen Sales)
- PST - 7b - End of Period Statement - Revenue Detail (Bitumen Sales)
- PST - 7c - End of Period Statement - Revenue Detail (SCO Sales)
- PST - 7d - End of Period Statement - Revenue Detail (Other Oil Sand Project Sales)
- PST - 8 - End of Period Statement - Carry Forward Amounts

Referenced from Section 5.4.1 in the Oil Sands Royalty Guidelines

These forms are also available from the Department web page:
http:/www.resdev.ab.ca/sands/forms/index.htm

Post Payout Project - End of Period Statement - Auditor's Letter

Signed letter from the Auditing Firm indicating their Auditors are satisfied that the Operator has complied with the Oil Sands Royalty Regulation, 1997. Independently audited statements are required only if the Project has bitumen sales that average greater than 10,000 barrels per day during the Period. If sales average less than 10,000 barrels per day, then End of Period financial statements prepared by the Operator are acceptable.

Post Payout Project - End of Period Statement - Royalty Payable

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period *Beginning Date:* ..... *End Date:* .....

Royalty Payable

Greater of		
1% Gross Revenue Royalty		[PST - 3]
or		
25% Net Revenue Royalty	$7,056,475	[PST - 3]
Adjustments from Previous Period(s)	$0	
Royalty Paid During the Period	$6,988,000	
Royalty Payable (Refund)	$68,475	

Section 29 (2)(a) of the Oil Sands Royalty Regulation, 1997 requires that the End of Period Statement be signed by the Operator of the Project or by the Operator's representative.

Post Payout Project - End of Period Statement - Royalty Calculations

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period *Beginning Date:* ..... *End Date:* .....

Royalty Based on Gross Revenue

Project Revenue from Bitumen, Blend SCO, and Other Oil Sands Products (all net of handling charges)	$57,513,783		[PST - 7]
Less: Cost of Diluent Used	($15,404,200)		[PST - 4]
Gross Revenue		$42,109,583	
Royalty of 1% Gross Revenue		$421,096	

Royalty Based on Net Revenue

Project Revenue	$57,513,783		[PST - 7]
Less: Total Costs	($29,299,884)		[PST - 4]
Add: Allowable portion of Other Net Proceeds	$12,000		[PST - 5]
Net Revenue (Net Loss)		$28,225,899	
Royalty of 25% Net Revenue		$7,056,475	

Excess of Gross Revenue Royalty over Net Revenue Royalty	$0	[carried forward as an allowed cost of the next Period]

Post Payout Project - End of Period Statement - Allowed Costs

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period *Beginning Date:* ..... *End Date:* .....

Allowed Costs

Return Allowance on Previous Period's Net Loss	$30,684	[PST - 6]
Net Loss Carried Forward from Previous Period	$1,000,000	[from previous Period's PST-8]
Excess Gross Revenue Royalty Over Net Revenue Royalty Paid during Previous Period	$0	[from previous Period's PST-8]
Operating	$10,365,000	
Capital	$2,500,000	
Diluent	$15,404,200	
Total	$29,299,884	

Post Payout Project - End of Period Statement - Unaudited Cost Detail (Sample Format)

PST - 4 Supp-a

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period *Beginning Date:* *End Date:*

Operating Cost Details

Month	Staff	Supplies & Services	Repairs & Maintenance	Utilities	Fuel	Other	Total
January	$375,000	$190,833	$149,750	$70,087	$74,096	$8,325	$868,091
February	$386,123	$189,547	$148,954	$69,871	$73,858	$8,268	$876,621
March	$369,045	$187,526	$147,985	$66,457	$73,103	$8,459	$852,575
April	$375,078	$188,987	$168,512	$68,957	$75,184	$8,359	$885,077
May	$372,896	$192,351	$159,255	$71,578	$74,358	$8,459	$878,897
June	$377,891	$187,458	$155,877	$70,259	$75,895	$8,247	$875,627
July	$381,897	$194,127	$150,459	$69,875	$63,523	$8,115	$867,996
August	$375,149	$190,752	$145,023	$68,569	$62,335	$8,357	$850,185
September	$377,584	$189,741	$146,257	$70,589	$64,172	$8,168	$856,511
October	$376,582	$192,341	$147,541	$70,015	$64,650	$8,195	$859,324
November	$374,394	$186,594	$144,052	$69,783	$64,466	$8,349	$847,638
December	$367,361	$199,743	$133,335	$71,930	$65,390	$8,699	$846,458
Sub-total	$4,509,000	$2,290,000	$1,797,000	$837,970	$831,030	$100,000	$10,365,000

Capital Cost Details

Month	Drilling & Completion	Production Equipment	New Facilities	Facility Improvements	Seismic	Other	Total
January	$100,000	$149,875	$0	$41,738	$22,229	$11,200	$325,042
February	$100,000	$151,789	$0	$41,615	$22,157	$12,500	$328,061
March	$100,000	$150,265	$0	$39,660	$21,931	$13,887	$325,743
April	$0	$0	$0	$41,092	$22,555	$13,358	$77,005
May	$0	$0	$87,450	$42,593	$22,307	$10,258	$162,608
June	$0	$0	$88,100	$41,837	$23,664	$11,239	$164,840
July	$0	$0	$86,900	$41,617	$19,057	$11,781	$159,355
August	$0	$0	$87,550	$40,869	$18,701	$12,593	$159,713
September	$0	$0	$0	$42,026	$19,943	$13,954	$75,923
October	$0	$0	$0	$41,698	$19,395	$12,891	$73,984
November	$100,000	$154,753	$0	$41,565	$19,340	$12,658	$328,316
December	$100,000	$143,318	$0	$42,794	$19,617	$13,681	$319,410
Sub-total	$500,000	$750,000	$350,000	$499,104	$250,896	$150,000	$2,500,000

Diluent	$15,404,200
Net Loss Carried Forward from Previous Period	$1,000,000
Return Allowance on Previous Period's Net Loss	$30,684
Excess Gross Revenue Royalty over Net Revenue Royalty Paid during Previous Period	$0
Period Total	**$29,299,884**

Post Payout Project - End of Period Statement - Unaudited Cost Detail (Sample Format)

PST - 4 Supp-b

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period Beginning Date: End Date:

Allowed Costs

Operating		
	Staff	$4,509,000
	Fuel	$1,669,000
	Supplies	$2,290,000
	Contracted Services	$1,797,000
	Research	$100,000
		$10,365,000
Capital		
	Sustaining	
	Equipment	$750,000
	Facility Rehab.	$750,000
		$1,500,000
	Developmental	
	Drilling	$500,000
	New Facilities	$350,000
	Other	$150,000
		$1,000,000
Diluent		$15,404,200
Return Allowance on Previous Period's Net Loss		$30,684
Net Loss Carried Forward From Previous Period		$1,000,000
Excess Gross Revenue Royalty Over Net Revenue Royalty Paid during Previous Period		$0
Total		$29,299,884

OR:

Allowed Costs

Operating		
	Mining	$4,509,000
	Extraction	$1,669,000
	Upgrading	$2,290,000
	Contracted Services	$1,797,000
	Research	$100,000
		$10,365,000
Capital		
	Sustaining	
	Equipment	$750,000
	Facility Rehab.	$750,000
		$1,500,000
	Developmental	
	Drilling	$500,000
	New Facilities	$350,000
	Other	$150,000
		$1,000,000
Diluent		$15,404,200
Return Allowance on Previous Period's Net Loss		$30,684
Net Loss Carried Forward From Previous Period		$1,000,000
Excess Gross Revenue Royalty Over Net Revenue Royalty Paid during Previous Period		$0
Total		$29,299,884

Post Payout Project - End of Period Statement - Other Net Proceeds

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period *Beginning Date:* *End Date:*

Other Net Proceeds

Unused Portion Carried Forward from Previous Period	$0	[from previous Period's PST-8]
Disposition of assets and non-oil sands' products	$0	
Sale / Lease of Technology	$4,000	
Insurance and Legal Settlements	$0	
Custom Processing and Transportation Fees	$8,000	
Processing of Project Owners' non-project substances	$0	
Total	$12,000	

Allowable Portion of Other Net Proceeds

Lesser of: Other Net Proceeds	$12,000	
or Total Allowed Costs	$29,299,884	[PST - 4]
Excess of Other Net Proceeds over Total Allowed Costs	$0	[carried forward as an other net proceed for the next Period]

Post Payout Project - End of Period Statement - Return Allowance

PST - 6

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period *Beginning Date:* ..... *End Date:* .....

Net Losses		Return Allowance Rate	Return Allowance Earned	
Net Loss for Second Previous Period (i.e., XXXX-2)	$0	7.31%	$0	
Net Loss for Previous Period (i.e., XXXX-1)	$1,000,000	6.12%	$30,684	(An allowed cost for the current Period).
Net Loss for Current Period (i.e., XXXX)	$0	6.39%	$0	(An allowed cost for the next Period).

Post Payout Project - End of Period Statement - Revenue

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period *Beginning Date:* ..... *End Date:* .....

Revenue

	Project Revenue ($)	Less: Cost of Diluent ($)	Gross Revenue ($)
January	$4,499,650	($1,203,800)	$3,295,850
February	$4,568,400	($1,224,600)	$3,343,800
March	$4,667,425	($1,249,750)	$3,417,675
April	$4,833,137	($1,292,800)	$3,540,337
May	$4,852,850	($1,299,000)	$3,553,850
June	$4,798,962	($1,286,200)	$3,512,762
July	$4,926,098	($1,318,600)	$3,607,498
August	$4,827,026	($1,294,450)	$3,532,576
September	$4,796,786	($1,285,700)	$3,511,086
October	$4,906,553	($1,314,500)	$3,592,053
November	$4,936,896	($1,322,300)	$3,614,596
December	$4,900,000	($1,312,500)	$3,587,500
Period Total	$57,513,783	($15,404,200)	$42,109,583

Post Payout Project - End of Period Statement - Revenue Detail (Blended Bitumen Sales)

PST - 7a

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period *Beginning Date:* *End Date:*

Blended Bitumen

	Blend Sales Volume (m^3)	Blend Sales Revenue ($)	Less: Blend Handling Charges ($)	Blend Unit Price ($/$m^3$)	Blend Sales Net Revenue (goes to Project Revenue) ($)	Less: Cost of Diluent ($)	Blend Sales Contribution to Gross Revenue ($)
January	42,100.0	$4,815,200	($336,800)	$106.38	$4,478,400	($1,203,800)	$3,274,600
February	43,700.0	$4,898,400	($349,600)	$104.09	$4,548,800	($1,224,600)	$3,324,200
March	44,000.0	$4,999,000	($352,000)	$105.61	$4,647,000	($1,249,750)	$3,397,250
April	45,100.0	$5,171,200	($360,800)	$106.66	$4,810,400	($1,292,800)	$3,517,600
May	45,500.0	$5,196,000	($364,000)	$106.20	$4,832,000	($1,299,000)	$3,533,000
June	45,900.0	$5,144,800	($367,200)	$104.09	$4,777,600	($1,286,200)	$3,491,400
July	46,200.0	$5,274,400	($369,600)	$106.16	$4,904,800	($1,318,600)	$3,586,200
August	46,400.0	$5,177,800	($371,200)	$103.59	$4,806,600	($1,294,450)	$3,512,150
September	45,900.0	$5,142,800	($367,200)	$104.04	$4,775,600	($1,285,700)	$3,489,900
October	46,500.0	$5,258,000	($372,000)	$105.08	$4,886,000	($1,314,500)	$3,571,500
November	46,600.0	$5,289,200	($372,800)	$105.50	$4,916,400	($1,322,300)	$3,594,100
December	46,500.0	$5,250,000	($372,000)	$104.90	$4,878,000	($1,312,500)	$3,565,500
Period Total	544,400.0	$61,616,800	($4,355,200)	$105.18	$57,261,600	($15,404,200)	$41,857,400

Post Payout Project - End of Period Statement - Revenue Detail (Bitumen Sales)

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period *Beginning Date:* ..... *End Date:* .....

Bitumen

	Bitumen Sales Volume (m^3)	Bitumen Sales Revenue ($)	Less: Bitumen Handling Charges ($)	Bitumen Unit Price ($/$m^3$)	** Bitumen Sales Net Revenue ($)
January	0.0	$0	$0	$0.00	$0
February	0.0	$0	$0	$0.00	$0
March	0.0	$0	$0	$0.00	$0
April	0.0	$0	$0	$0.00	$0
May	0.0	$0	$0	$0.00	$0
June	0.0	$0	$0	$0.00	$0
July	0.0	$0	$0	$0.00	$0
August	0.0	$0	$0	$0.00	$0
September	0.0	$0	$0	$0.00	$0
October	0.0	$0	$0	$0.00	$0
November	0.0	$0	$0	$0.00	$0
December	0.0	$0	$0	$0.00	$0
Period Total	0.0	$0	$0	$0.00	$0

** Bitumen Sales Net Revenue contributes to both Project Revenue and Gross Revenue totals.

Post Payout Project - End of Period Statement - Revenue Detail (SCO Sales)

PST - 7c

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period *Beginning Date:* _____ *End Date:* _____

Synthetic Crude Oil

	SCO Sales Volume (m^3)	SCO Sales Revenue ($)	Less: SCO Handling Charges ($)	SCO Unit Price ($/$m^3$)	** SCO Sales Net Revenue ($)
January	0.0	$0	$0	$0.00	$0
February	0.0	$0	$0	$0.00	$0
March	0.0	$0	$0	$0.00	$0
April	0.0	$0	$0	$0.00	$0
May	0.0	$0	$0	$0.00	$0
June	0.0	$0	$0	$0.00	$0
July	0.0	$0	$0	$0.00	$0
August	0.0	$0	$0	$0.00	$0
September	0.0	$0	$0	$0.00	$0
October	0.0	$0	$0	$0.00	$0
November	0.0	$0	$0	$0.00	$0
December	0.0	$0	$0	$0.00	$0
Period Total	0.0	$0	$0	$0.00	$0

** SCO Sales Net Revenue contributes to both Project Revenue and Gross Revenue totals.

Post Payout Project - End of Period Statement - Revenue Detail (Other Oil Sand Product Sales)

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period *Beginning Date:* _____ *End Date:* _____

Other Oil Sands Products *(Specify Product)* _____

	Other Sales Quantity (m^3 or tonne)	Sales Revenue ($)	Less: Handling Charges ($)	Unit Price ($/$m^3$ or tonne)	** Sales Net Revenue ($)
January	3,125.0	$31,250	($10,000)	$6.80	$21,250
February	2,960.0	$29,600	($10,000)	$6.62	$19,600
March	3,042.5	$30,425	($10,000)	$6.71	$20,425
April	3,273.7	$32,737	($10,000)	$6.95	$22,737
May	3,085.0	$30,850	($10,000)	$6.76	$20,850
June	3,136.2	$31,362	($10,000)	$6.81	$21,362
July	3,129.8	$31,298	($10,000)	$6.80	$21,298
August	3,042.6	$30,426	($10,000)	$6.71	$20,426
September	3,118.6	$31,186	($10,000)	$6.79	$21,186
October	3,055.3	$30,553	($10,000)	$6.73	$20,553
November	3,049.6	$30,496	($10,000)	$6.72	$20,496
December	3,200.0	$32,000	($10,000)	$6.88	$22,000
Period Total	37,218.3	$372,183	($120,000)	$6.78	$252,183

** Other Oil Sands Product Sales Net Revenue contributes to both Project Revenue and Gross Revenue totals.

Post Payout Project - End of Period Statement - Carry Forward Amounts

Project Operator
Project Name and OSR Approval Number
Project Owner(s)
For the Period *Beginning Date:* *End Date:*

Carry Forward Amounts to Next Period

Net Loss During Period	$0	[PST - 6]	(to be carried forward to next period's Allowed Costs)
Return Allowance for Current Period's Net Loss	$0	[PST - 6]	(to be carried forward to next period's Allowed Costs)
Excess of Gross Revenue Royalty over Net Revenue Royalty	$0	[PST - 3]	(to be carried forward to next period's Allowed Costs)
Excess of Other Net Proceeds over Total Allowed Costs	$0	[PST - 5]	(to be carried forward to next period's Other Net Proceeds)

APPENDIX 8. OPERATOR'S FORECAST REPORT

- Sample Format for Operator's Forecast Report

Referenced from Section 5.5.1 in the Oil Sands Royalty Guidelines

Sample Format for Operator's Forecast Report
Oil Sands Royalty Regulation, 1997 - Section 27

			Units[1]	Current Year[2]	Forecast Year 1	Forecast Year 2	Forecast Year 3	Forecast Year 4
Opening Balance[3]			$000					
		API / Sulphur %						
Sales Volumes[4]	Product 1		m^3/year					
	Product 2		m^3/year					
	Product 3		m^3/year					
	Product 4		m^3/year					
		Benchmark Used						
Quality Differential[5]	Product 1		$/$m^3$					
	Product 2		$/$m^3$					
	Product 3		$/$m^3$					
	Product 4		$/$m^3$					
		To:						
Handling Charges[6]	Product 1		$/$m^3$					
	Product 2		$/$m^3$					
	Product 3		$/$m^3$					
	Product 4		$/$m^3$					
Other Product Revenues[7]			$000					
Natural Gas Volumes Used[8]			m^3/year					
Diluent Volumes Used[9]			m^3/year					
Allowed Costs[10]	Operating Costs		$000					
	Capital Costs:		$000					
			$000					
Other Net Proceeds[11]			$000					
Forecast of Project Payout Date[12]								

APPENDIX 9. DEPARTMENT CONTACT LIST

OIL SANDS ROYALTY REGULATION INFORMATION

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